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ABSTRACT

With many families facing difficult economic times, wealth is becoming increasingly concentrated among the rich. The tables in this "chartbook" illustrate the growing gap between rich and poor. There has been a general decline in economic growth as well as a change in tne distribution of income. In addition, corporations have been taking a larger share of the national income as profits, compared to the size of their investments. Jobs are moving out of manufacturing and into the lowest-paid service-sector jobs. Other factors have played a role in the decline in living standards, but taxes, inflation, government size, high U.S. wages, the education and skills of the U.S. work force, and government regulations are considered to play little, if any, role. Figures illustrate the decline in living standards and some causes. An appendix discusses the methodology responsible for the findings presented. (Contains 43 figures and 31 references.) (SLD)

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The State of Working America

1998-99

A Chartbook of American Living Standards

Lawrence Mishel, Jared Bernstein & Heather Boushey

Economic Policy Institute

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The Prosperity Gap

A Chartbook of American Living Standards

Edith Rasell
Barry Bluestone
Lawrence Mishel

Charts by David Webster

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PREFACE

Despite some improvement over the last two or three years—rising incomes for the median or "typical" family, low unemployment, and a drop in the number of people living in poverty—many Americans rightly remain troubled by the state of the economy. Family income remains significantly below the level reached in 1989 (the year of the most recent business-cycle peak), annual earnings for the typical worker continue to decline, and income inequality (the gap between rich and poor) is high by historic standards.

While many people feel insecure and worry about their children's economic future, few understand the causes for their declining living standards and why their economic foothold feels so precarious. Thus, most people are unable to evaluate policy options that affect the economy and are poor advocates with their elected representatives for policies that might improve living standards and increase economic security. Recognizing that a well-functioning democracy rests upon educated citizens making informed choices, this chart book is written in the hope that it will enhance Americans' ability to effectively participate in the democratic process, particularly in debates about economic policy.

OVERVIEW

Dimensions of the Problem

Fundamental changes in the U.S. economy continue to profoundly affect American living standards. Since 1973, many families have experienced stagnant or falling incomes. While families at every income level are being affected, the 40% of families with the lowest incomes are facing the most economic difficulty. Declining family income, for the most part, is due to falling wages and salaries. (Throughout this text, the term wages will be used to refer to both wages and salaries.)

Wage losses first appeared among workers with the least education, but they have now spread up the education ladder—even men with college degrees saw their wages fall between 1973 and 1995. For the three-quarters of all workers with less than a college degree, wages fell over 7%, on average, between 1989 and 1995. Particularly hard hit are younger workers—they are starting at lower wages and seeing much slower growth in earnings than in previous decades.

As a result of these wage declines, growing numbers of workers are receiving such low pay that, even working full-time, year-round, their families live in poverty. Poverty rates remain high, especially among children. Moreover, workers are also finding that fewer employers provide health insurance and pensions. More frequent changes of employer further contribute to economic insecurity. To try to offset these trends, many people, especially married women, are working longer hours.

With many families facing difficult economic times, wealth is becoming increasingly concentrated among the rich. The best-off 20% of families saw a large increase in their wealth during the 1980s while the poorest 80%, on average, experienced no increase at all.

Reasons for the Decline

Why are our incomes growing so sluggishly, and why is income inequality on the rise? There are three basic causes:

- First, there has been a general slowdown in economic growth (the growth in the amount of goods and services produced) and in the growth of national income (the sum of all income received in the nation). This means that the size of the "income pie" available to be divided among families is growing much more slowly than before. In 1994, income for the median family was $5,985 lower than it would have been if economic growth between 1973 and 1994 had continued at just *half* the rate of the 1947-73 period.

- Second, there has been a change in the distribution of income. Since 1973, people with relatively low- or mid-level incomes have seen slower growth in income than have people with higher incomes. So, in addition to having a more slowly growing pie to divide among all families, a larger share of the total is going to higher-income families and a shrinking share is going to lower- and middle-income families. If the distribution of income had been the same in 1994 as in 1973, the income of the median family would have been $5,168 higher.

- Third, in recent years, corporations have been taking a larger share of national income as profits, compared to the size of their investments and assets and the average profit rates seen between 1952 and the mid-1980s. The shift in income from wages to profits cost the average full-time worker $1,371 in 1994.

Reasons for the Slowdown in Growth

While not all the causes of the general slowdown in growth that began in 1973 have been established, three major factors have been identified.

- Economic growth depends upon growth in productivity, the amount that can be produced with a given amount of materials, equipment, and personnel. After 1973, productivity growth slowed. This decline was due to reductions in both public and private investment and to the shift in employment from manufacturing, a high-productivity-growth sector, to service industries, where productivity grows more slowly.
- Actions by the Federal Reserve Board (the "Fed") have contributed to the slowdown since 1979. The Fed views fighting inflation as its central purpose, and its primary method for achieving this goal is to raise interest rates. But when the Fed raises interest rates, economic growth is slowed and unemployment rises. Inflation-adjusted interest rates in the 1980s and 1990s have been substantially higher than in earlier periods.
- There is an excessive focus by company executives and boards of directors on short-term profits and stock prices. Actions that, in the short run, raise the price of a company's stock or its profit rate may not be in the best long-term interests of the firm's shareholders or employees. While the overall economy has suffered, the stock market and the pay of chief executive officers (CEOs) have skyrocketed.

Reasons for the Growing Disparity in Incomes

The major reason that low- and middle-income families have seen slower income growth than have higher-income families is that wages are becoming more unequal. Many low- and middle-wage earners have seen their wages fall, while higher-wage workers have seen an increase—or at least no decline. There are five major causes of the growing disparity in wages:

- Jobs are moving out of manufacturing and into the lowest-paid service-sector jobs.
- An increase in international trade has put downward pressure on wages, even in industries not directly affected by imports.
- The value of the minimum wage, even after recent increases, has not kept pace with inflation, thereby reducing wages for the 20% of the labor force with the lowest wages. A high proportion of these workers are adult women.
- The share of the labor force working under union contracts has declined.
- Deregulation has put downward pressure on wages.

The increased globalization of the economy and the shift to low-wage service-sector jobs are responsible for about one-third of the growth in earnings inequality. The erosion in the value of the minimum wage and the decline in the share of the workforce that belongs to a union account for an additional third of the increased inequality.

Factors That Have *Not* Played an Important Role in the Decline

Many other explanations have been offered for the decline in living standards. But some that are discussed the most often have played little if any role. These include:

- taxes
- the size of government
- inflation
- high wages that make U.S. workers and products less competitive in international markets
- the education and skills of the American labor force
- government regulations.

If these factors are not responsible for declining living standards, then we can't expect the usual nostrums of lower taxes, smaller government, high interest rates, wage concessions, reduced government regulation, or crash courses in computers to be of much help. Rather, policies to turn the economy around will have to address directly the problems of sluggish economic growth and inequitable distribution of economic gains.

SECTION 1:

THE DECLINE IN LIVING STANDARDS

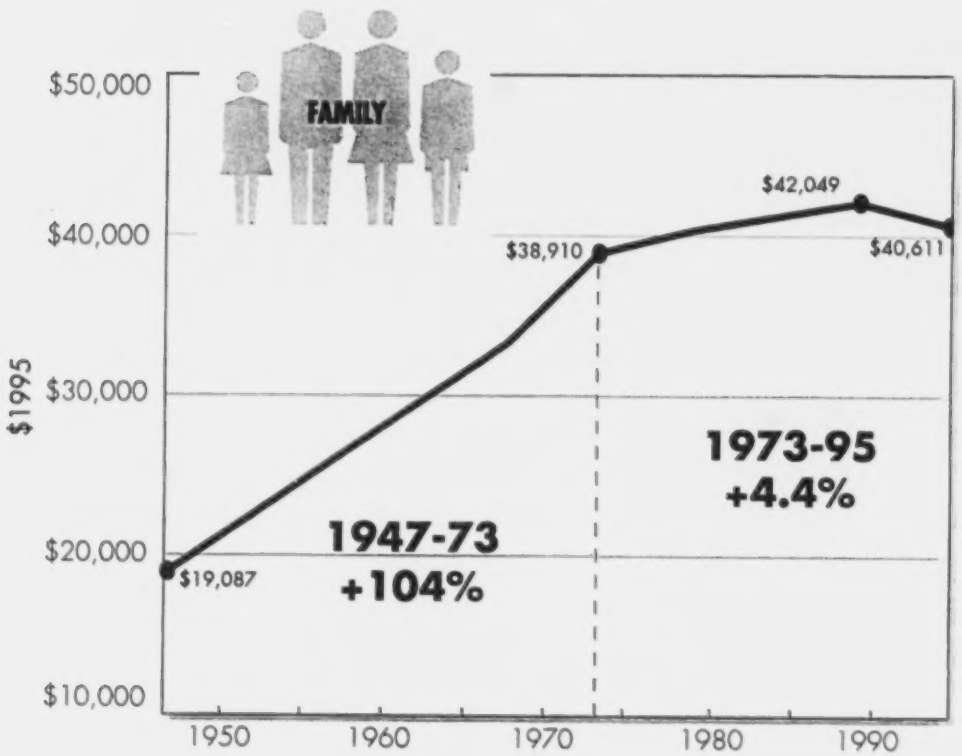
FAMILY INCOME GROWTH SLOWS

In the 26-year period between 1947 and 1973, median family income,* measured in real, inflation-adjusted dollars, grew from $19,087 to $38,910, or 104%. This works out to growth of 2.8% a year on average, a doubling every 25 years. The growth rate slowed markedly between 1973 and 1989 to 0.5% a year, a doubling only every 139 years. Between 1989 and 1993, median family income dropped, but in 1994 and 1995, as would be expected during a period of economic growth, it began to grow again, although it still remains 3.4% ($1,438) below the level reached in 1989. Over the 22-year period from 1973 to 1995, median family income rose only 4.4%, working out to an annual rate of 0.2%, or a doubling every 354 years.

* Median family income is the income received from all sources by the family in the middle—half of all families have a lower income and half have a higher one. The economic condition of the median family is probably the most useful indicator of the economic well being of the typical American family.

Postwar income boom is now a whimper

Figure 1: Median Family Income, 1947-95



Note: Annual income adjusted for inflation.
Source: Authors' analysis of U.S. Department of Commerce, Bureau of the Census (various years).

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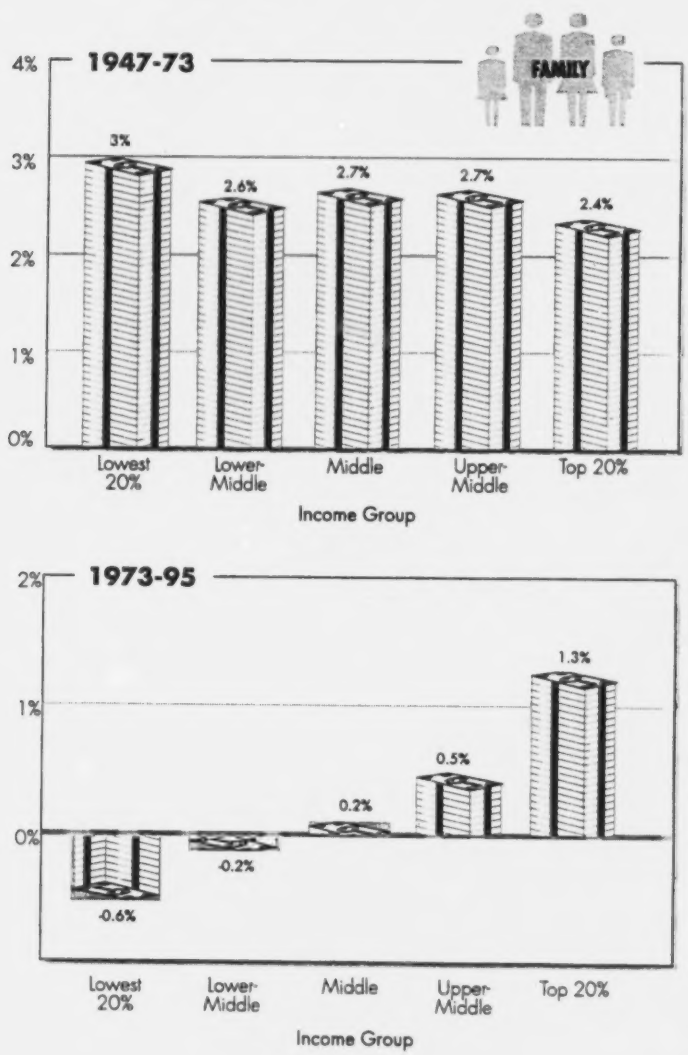
LOWEST-INCOME FAMILIES HIT HARDEST

Not all families have experienced income growth, or declines, at the same pace in recent years. In the 26-year period between 1947 and 1973, the one-fifth of families with the lowest incomes saw the most rapid growth (3.0% a year), while the top 20% of families saw growth of just 2.4% a year. As a result, income inequality (the gap in income between rich and poor) actually declined during this period.

However, after 1973, when income growth slowed, there was also an increase in income inequality. The 40% of families with the lowest incomes saw not just a slowdown in growth but, on average, a decline in income over the period, while the 20% of families at the top of the income ladder experienced a growth, although it was much slower than in the period prior to 1973.

Income actually falls for working class and poor families

FIGURE 2: Annual Growth in Family Income, by Income Group



Note: One-fifth of all families are in each income class. The one-fifth of families with the lowest incomes are in the lowest fifth. The one-fifth of families with the highest incomes are in the highest fifth, etc.

Source: Authors' analysis of U.S. Department of Commerce, Bureau of the Census (various years).

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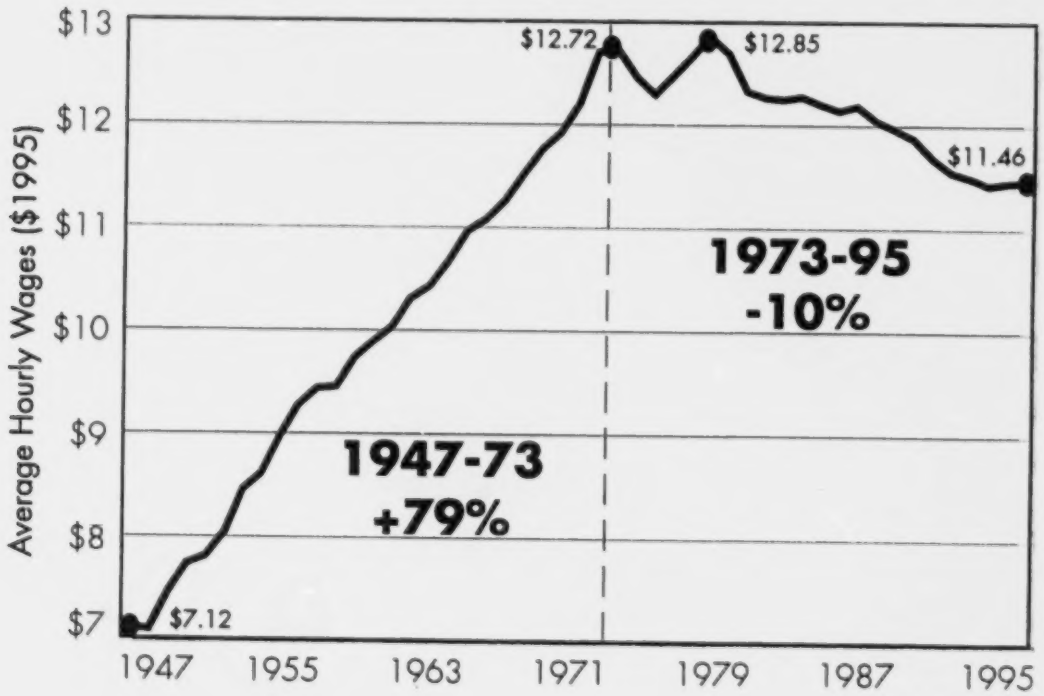
FALLING INCOMES DUE TO FALLING WAGES

The fall in family income has been driven largely by a fall in the hourly wages of nonsupervisory and production workers—the 82% of workers in private businesses who are not professionals, managers, or administrators. Between 1947 and 1973, hourly wages rose from $7.12 to $12.72, an increase of 79%. But since 1973, hourly wages have declined 10%, falling to $11.46 in 1995 (the same level as in 1968). When wages are declining, most families can maintain or improve their incomes only by sending more family members to work or by working longer hours.

Wages are falling for most workers

FIGURE 3: Growth in Hourly Wages, 1947-95



Note: These inflation-adjusted wages are for the approximately 82% of the privately employed labor force categorized as production and nonsupervisory workers. Hourly wages for salaried workers are included.
Source: Authors' analysis of Council of Economic Advisors (1996).

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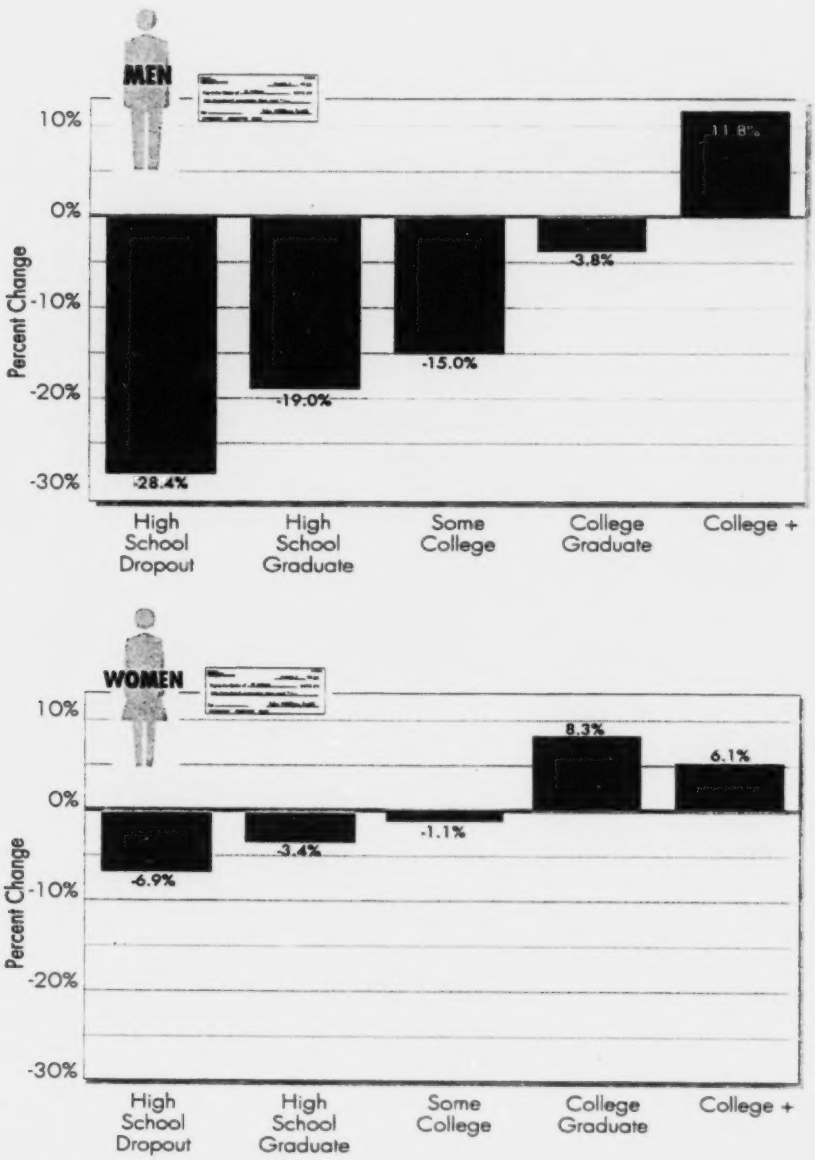
EDUCATION PROVIDES NO PROTECTION

When widespread wage declines began 22 years ago, only workers with the lowest levels of education were affected. However, the trend has spread up the education ladder, pulling down male workers at all education levels through college. Only the 8.6% of male workers with post-graduate education continue to see (slowly) rising wages.

Women are only slightly less affected. The 24.9% of women with college or advanced degrees have seen slowly rising wages (although their wages are lower than men's). The rest have seen their wages fall.

Wages fall for college-educated men

FIGURE 4: Change in Wages by Level of Education Attained, 1973-95



Note: Hourly wages for salaried workers are included.
Source: Mishel, Bernstein, & Schmitt (1997).

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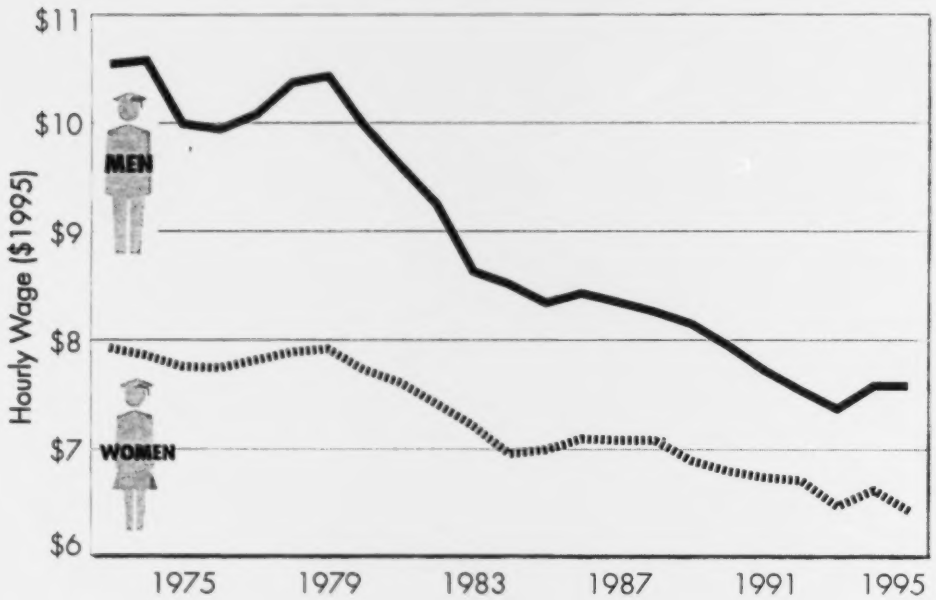
HIGH SCHOOL GRADUATES STARTING FROM BEHIND

Some of the largest wage declines have been among entry-level workers (those with less than six years experience in the labor force) with a high school education. Average wages for male entry-level high school graduates were 27.3% lower in 1995 than in 1979. For women, the decline was 18.9%.

Young workers greeted with lower wages

Figure 5: Entry-Level Wages of High School Graduates, 1973-95



Note: A starting or entry-level worker has less than six years of work experience.
Source: Mishel, Bernstein, & Schmitt (1997).

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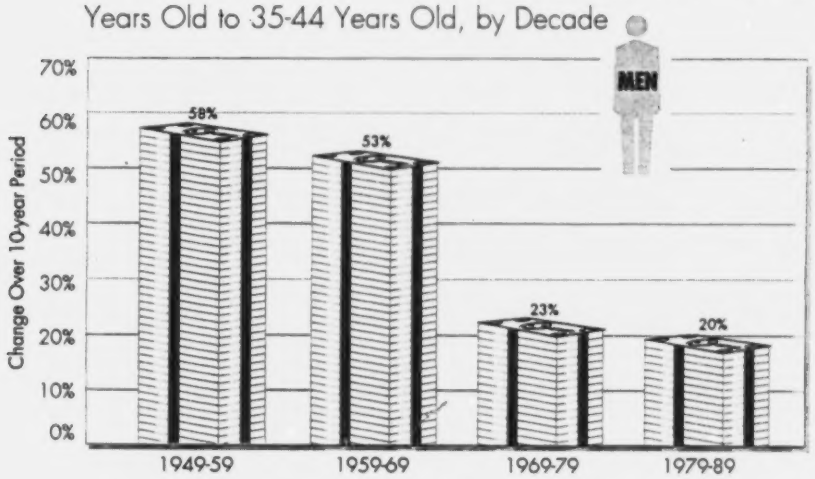
WAGE GROWTH SLOWS

In addition to starting out with lower wages, young men are also experiencing slower income growth. A typical young man in 1949 (25-34 years old, at the median income level) saw his income rise 58% over the decade of the 1950s. At that rate, his income would have doubled every 15 years. Put another way, a 25-year-old in 1949 could expect to be making twice as much by the time he turned 40. By contrast, a typical young man in 1979 (the same median-income worker, age 25-34) saw his income rise just 20% during the 1980s, or doubling every 38 years. Thus, at this rate, a typical 25-year-old in 1979 wouldn't see his income double until he turned 63.

In any economy, some people experience rising incomes while others see their incomes decline. In recent years, however, the share of adults who experience a fall in family income over the course of a decade has risen. Among adults who were 22 to 48 years old in 1969, 21% experienced a fall in income over the 1970s. By the 1980s, the proportion had risen to 33%.

Young workers have less to look forward to

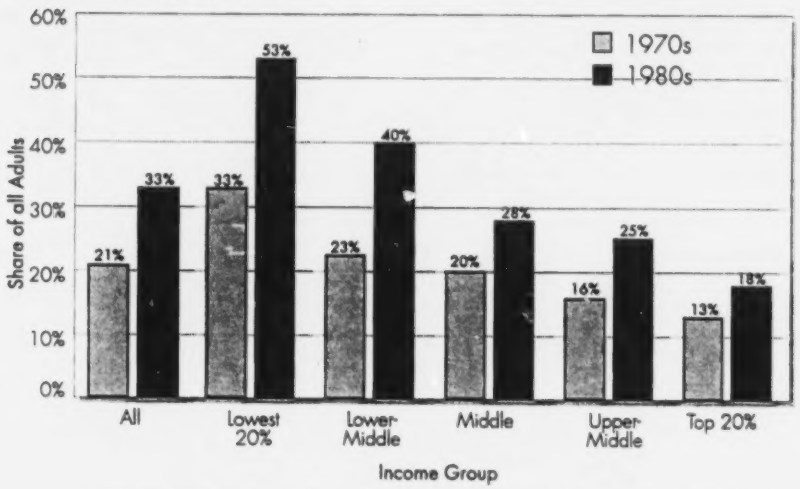
FIGURE 6A: Change in Median Income of Men as They Age From 25-34 Years Old to 35-44 Years Old, by Decade



Source: Authors' analysis of U.S. Department of Commerce, Bureau of the Census (1993).

More workers see their incomes fall

FIGURE 6B: Percentage of Adults Whose Family Income Fell Over the Decade



Note: "Adults" defined as 22-48 years old at the beginning of the decade. One-fifth of all families are in each income class. The one-fifth of families with the lowest incomes are in the lowest fifth. The one-fifth of families with the highest incomes are in the highest fifth, etc. The data in both of these charts show the income changes experienced by a group of people over a period of time as they age and gain experience, change or lose jobs, and move through their lives. A more complete explanation of the methods of analysis used in these charts compared to others in this book can be found in the appendix.
Source: Rose (1993).

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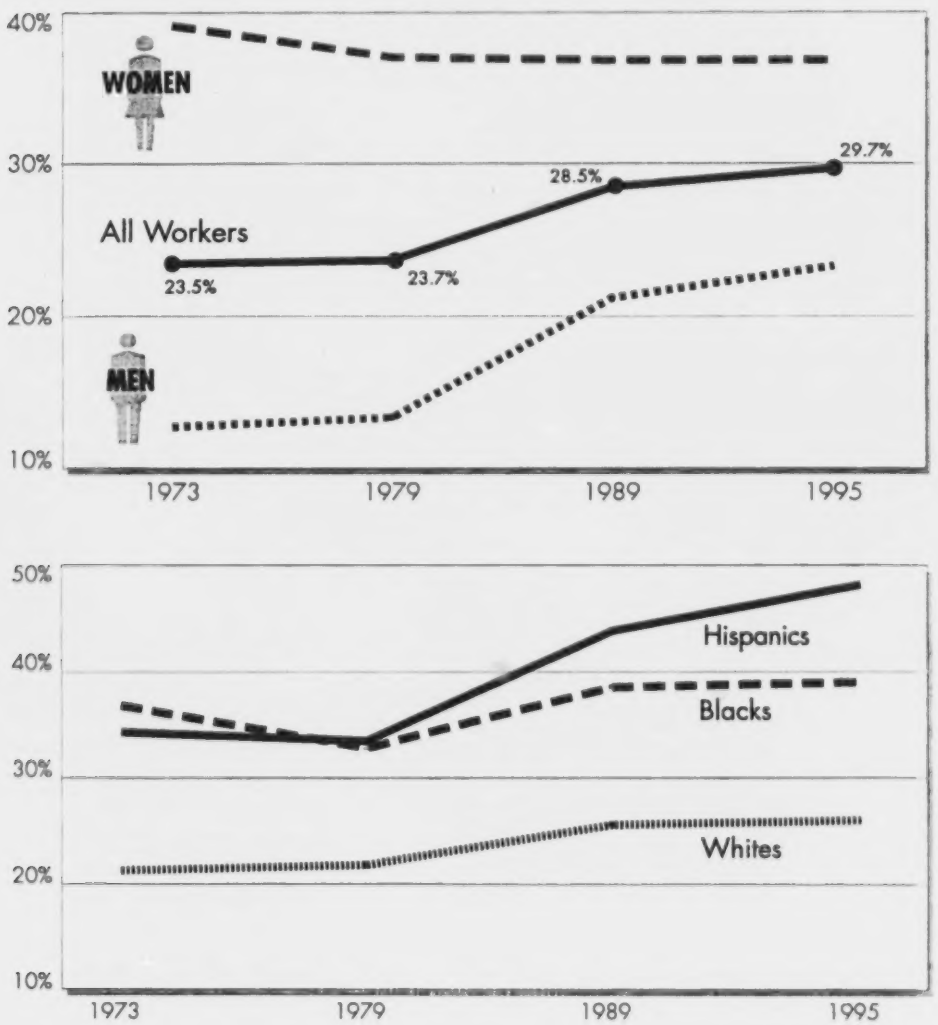
WORKING FULL TIME IS NO PROTECTION

Because wages are so low, even someone working full time and year round may not earn enough to lift a family of four out of poverty. Since 1979, the share of all workers earning such low wages has been steadily rising, reaching 29.7% in 1995. Women are more likely to receive poverty-level wages than are men, and African American and Hispanic workers are more likely to receive them than are whites.

Low wages push many workers into poverty

FIGURE 7: Percent of Workers Earning Poverty-Level Wages, 1973-95



Note: A full-time yearround worker with poverty-level wages earns insufficient income to lift a family of four out of poverty.
Source: Mishel, Bernstein, & Schmitt (1997).

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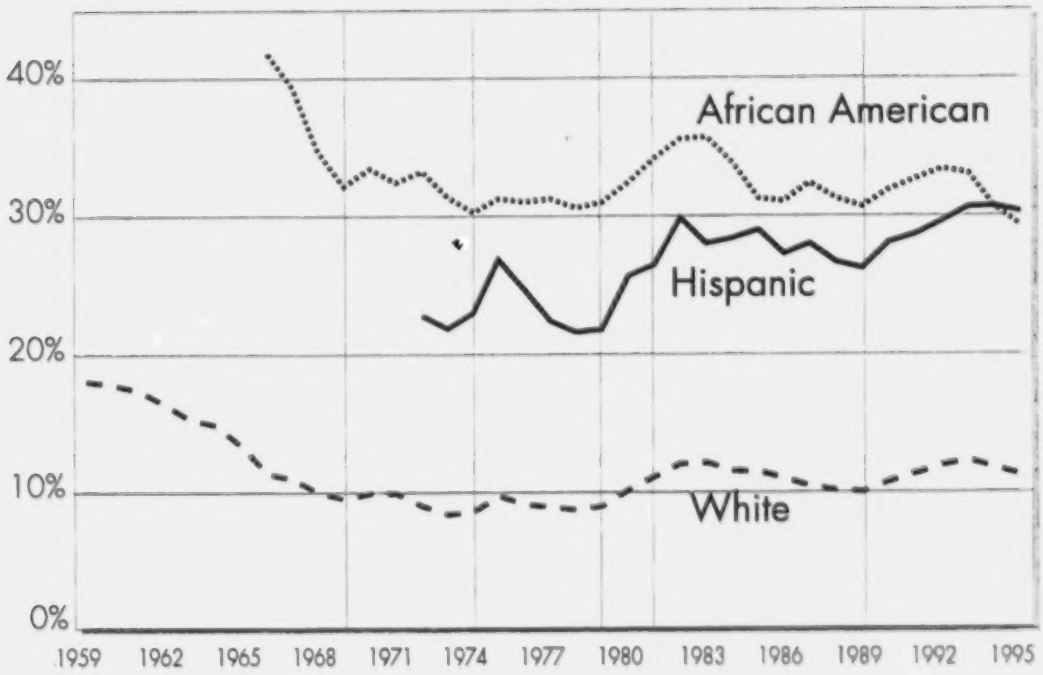
POVERTY RATES REMAIN HIGH

Slower income growth and widening inequality have brought persistently high rates of poverty. Before 1973, when incomes were rising rapidly, particularly for those at the bottom of the income ladder, the poverty rate (the percent of people living in poverty) declined substantially. However, the slowdown in income growth after 1973 and growing inequality that favored higher-income workers halted the rapid decline in poverty. (The share of African Americans who are poor has continued to decline, however, falling to 29.3% in 1995, the lowest level ever recorded.) The poverty rate for whites has been fairly constant over the 1980s and 1990s, fluctuating between 10% and 12%. The share of Hispanics who are poor has risen.

Poverty rates are also affected by the business cycle—they rise during periods of recession and fall during periods of growth. In 1995, when the economy was in the fifth year of a recovery, 36.4 million Americans (13.8%) lived in poverty, a decline from 38.1 million (14.5%) in 1994. In 1995, 11.2% of whites (24.4 million people) lived in poverty, a higher rate than in the 1970s and late 1980s but lower than in 1994. Some 30.3% of Hispanics (8.6 million people) were poor in 1995, a lower rate than in 1993 and 1994 but higher than at any time prior to 1993.

Poverty remains widespread

FIGURE 8: Poverty Rates, 1959-95



Note: The poverty rate is the percent of persons with poverty-level income. Vertical lines indicate recessions. These three race/ethnic categories are not mutually exclusive. Hispanics may be of any race.
Source: Authors' analysis of U.S. Department of Commerce, Bureau of the Census (various years)

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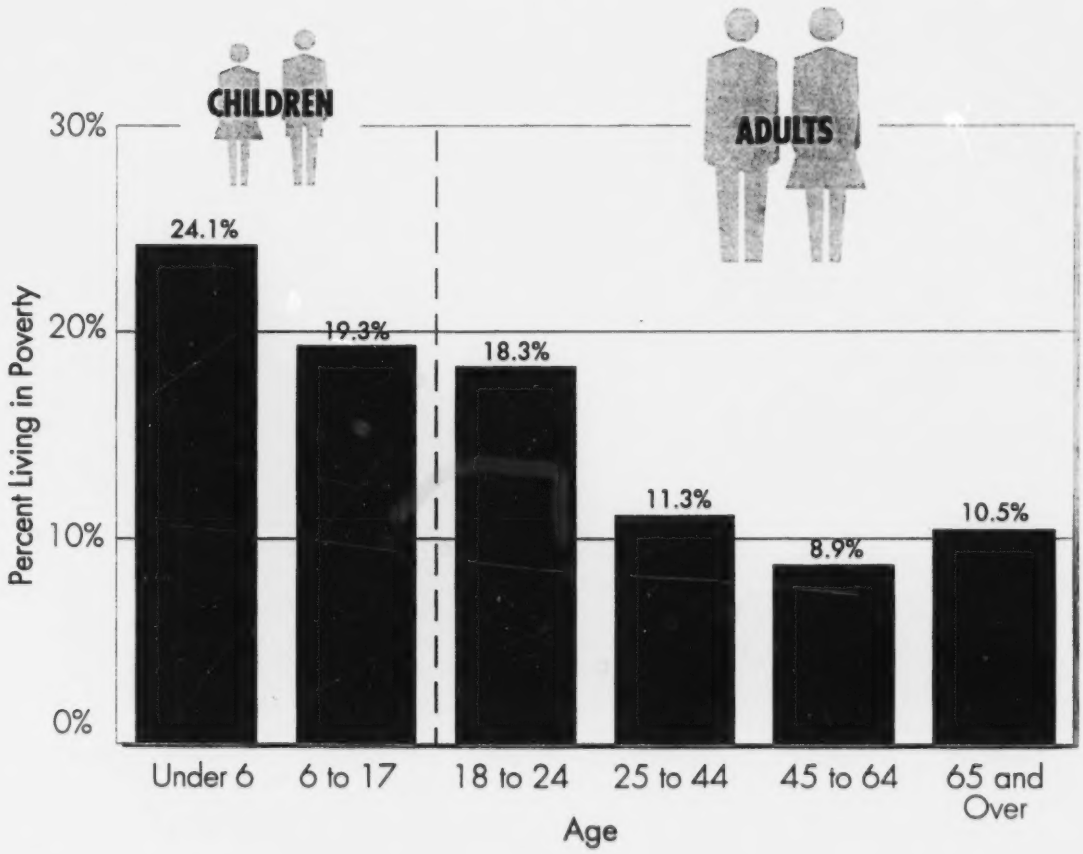
POVERTY RATES HIGHEST FOR CHILDREN

Children have the highest poverty rates of any age group. In 1995, nearly one in every four children under age 6 (24.1%) lived in poverty. Among children age 6 to 17, 19.3% were poor. Poverty rates tend to decline with rising age, but they shift slightly upward again for the population age 65 and above.

One in four young children live in poverty

FIGURE 9: Poverty Rates by Age, 1995



Source: U.S. Department of Commerce, Bureau of the Census (1996) and unpublished data.

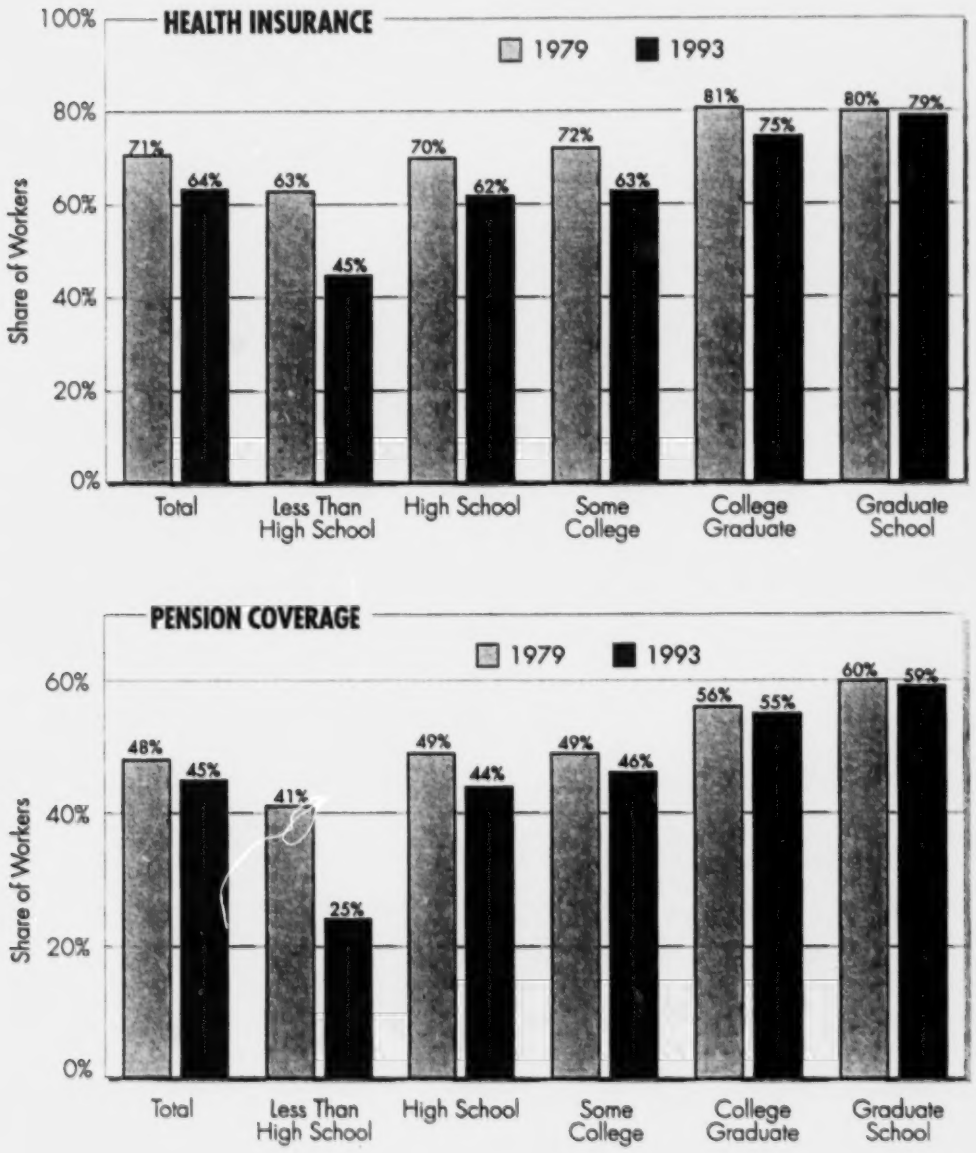
EMPLOYEE BENEFITS ON THE DECLINE

In addition to falling wages and incomes, workers and their families are experiencing greater economic insecurity. One factor contributing to this insecurity is the decline in health insurance and pension coverage. In 1979, 71% of all private-sector employees age 18 to 64 who worked at least 20 hours per week and 26 weeks per year received health insurance through an employer, either their own or a family member's. By 1993 this proportion had fallen to 64%. Moreover, coverage varies markedly by level of education. For workers with less than a high school diploma (10.8% of the labor force), coverage fell from 63% in 1979 to 45% in 1993. For those with a high school diploma (approximately one-third of the labor force), coverage declined from 70% to 62%. Even college graduates (17% of the labor force) experienced a lesser but still sizable decline in coverage, from 81% to 75%.

Pension coverage is also falling. In 1979, 48% of private-sector employees age 18 to 64 who worked at least 20 hours per week and 26 weeks per year participated in pension plans from their employer or union. By 1993, only 45% had pensions. Among workers with less than a high school diploma, coverage fell from 41% to 25%; among high school graduates it fell from 49% to 44%.

Fewer workers are covered by employer-provided health insurance or pensions

FIGURE 10: Workers With Employer-Provided Health Insurance or Pension Coverage, by Education Level, 1979 and 1993



Note: Private-sector wage and salary workers, age 18-64, who worked at least 20 hours per week and 26 weeks per year.
Source: Source: Mishel, Bernstein, & Schmitt (1997).

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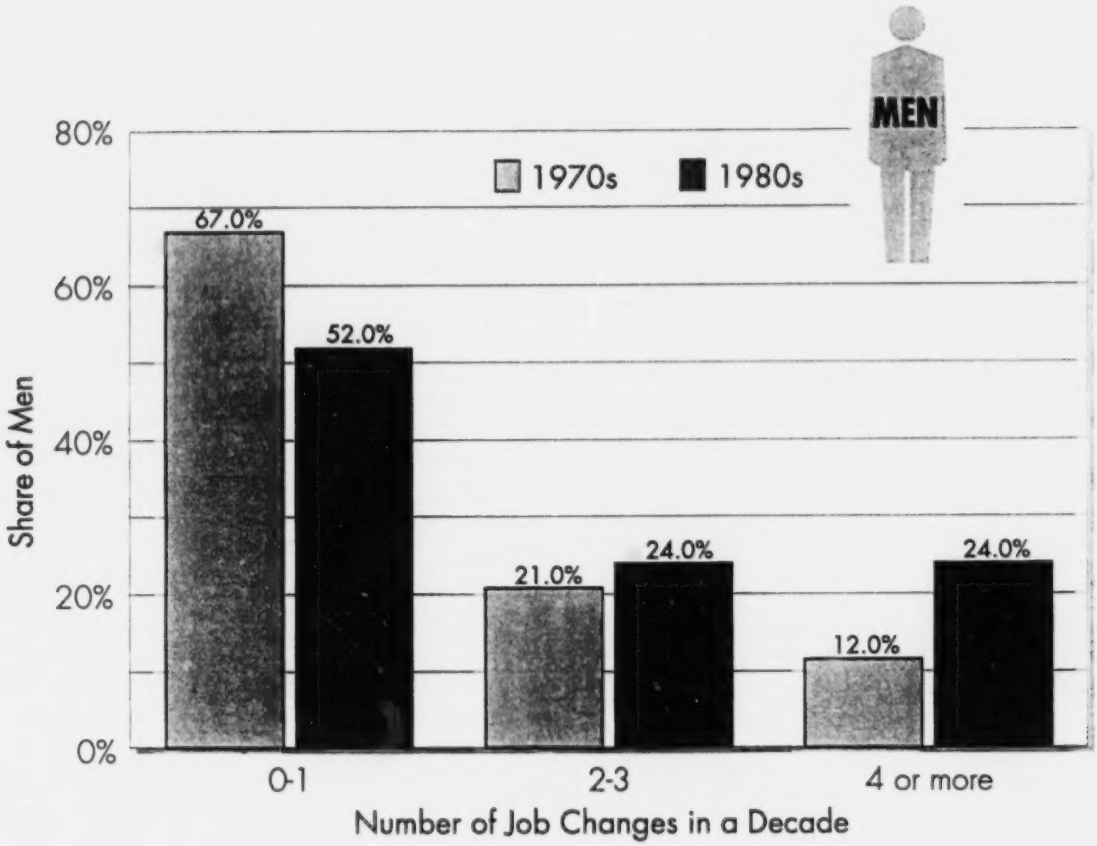
JOB STABILITY DECLINES

Changing employers is becoming more common. Among men age 34-58 in 1979, 67% had remained with the same employer or had changed employers—either by choice or necessity—only once during the previous 10 years. However, during the 1980s only 52% of men in this age group enjoyed this degree of job stability. Also during the 1970s, few men in this age group had a high level of job instability: only 12% changed employers four times or more during the decade. By the 1980s this figure had risen to 24%.

Job changes become more common

FIGURE 11: Job Stability for Men Age 24-58, 1970s and 1980s



Source: Rose (1995).

LAYOFFS ON THE RISE

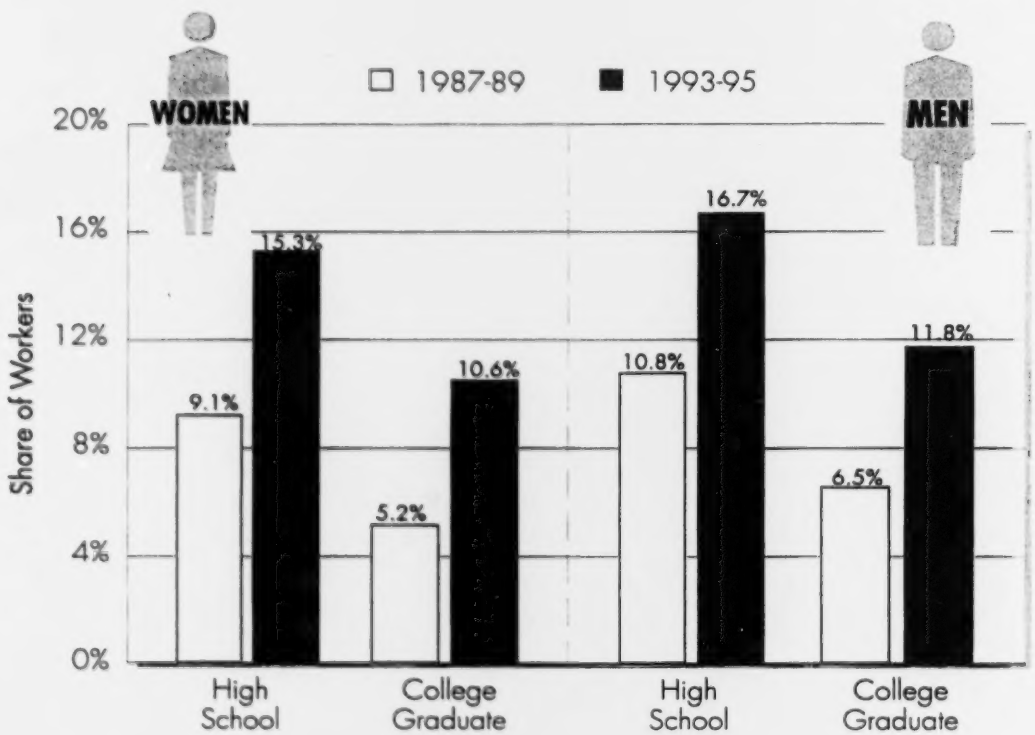
The share of workers who are displaced from their jobs is rising. Workers are considered displaced if they lose their jobs due to a plant closing, slack work, the elimination of their position (for example, when a firm is downsizing), or for other reasons based on the operating decisions of an employer. (Quitting or being fired for poor work performance are not considered displacement.).

Between 1987 and 1989, among workers with a high school education, 9.1% of women and 10.8% of men were displaced. Between 1993 and 1995, displacement increased, affecting 15.3% of high-school-educated women and 16.7% of men. While the level of displacement is lower for workers with college degrees, the increase among this group has been even greater, rising from 5.2% to 10.6% for women and from 6.5% to 11.8% for men.

Displaced workers suffer loss of income and higher rates of unemployment. Among workers who found new jobs after being displaced in the early 1990s, earnings were 15% lower, on average, in the new job than in the old one. Two years after losing their jobs, 12% of displaced workers were unemployed.

Workers more likely to be laid off

Figure 12: Worker Displacement Rates, by Education and Sex, 1987-89 and 1993-95.



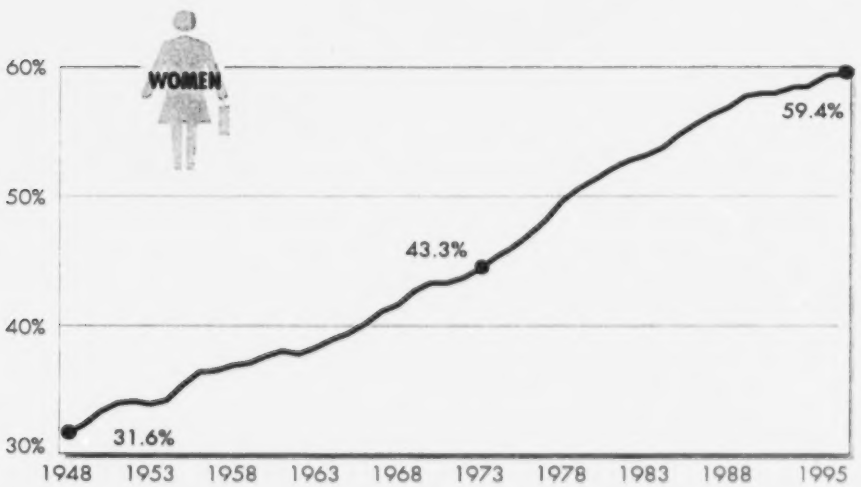
Note: Displacement occurs due to plant closings, slack work, elimination of a position, or other causes based on employers' operating decisions.
Source: Farber (1996)

WOMEN JOIN THE LABOR FORCE

Since World War II, a growing share of women have entered the labor force. In 1995, 59.4% of women age 20 and above were employed or looking for work, up from 31.6% in 1948 and 43.3% in 1973. Due to greater participation in the labor force and an increase in hours worked by women already employed, the number of hours worked for pay outside the home has increased, especially among married women. Annual hours of paid work by married women (averaged over women who do and do not work for pay) rose by 34.3% between 1979 and 1994, from 851 per year (an average of 15 hours per week) to 1,143 (22 hours per week). Median family income fell during this period despite this increase in hours worked.

More and more women are working...

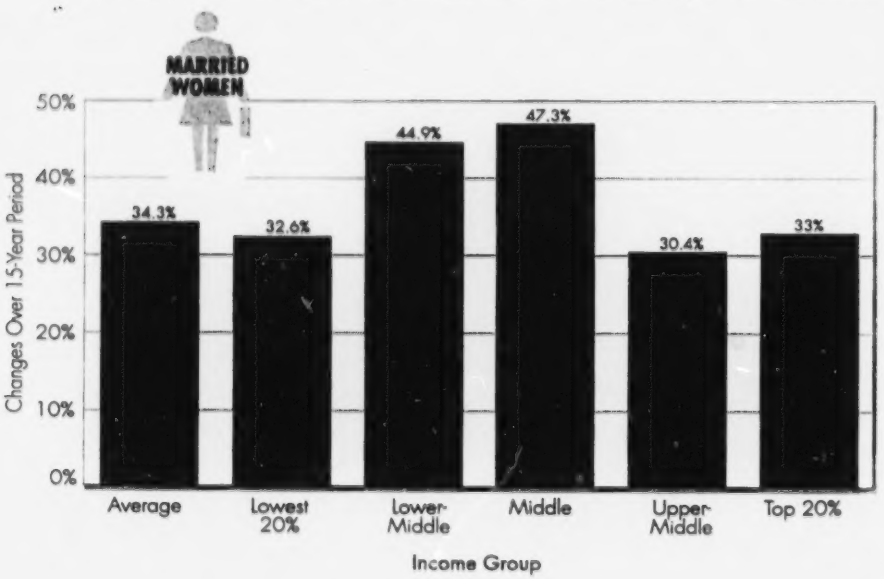
FIGURE 13A: Share of Women in the Labor Force, 1948-95



Note: Rate for women 20 and above. Women who are in the labor force are either employed or looking for work.
Source: U.S. Department of Labor, Bureau of Labor Statistics, unpublished data.

...and they're working more and more hours

FIGURE 13B: Increase in Annual Hours Worked by Married Women, 1979-94



Note: One-fifth of all families are in each income class. The one-fifth of families with the lowest incomes are in the lowest fifth. The one-fifth of families with the highest incomes are in the highest fifth, etc.
Source: Mishel, Bernstein, & Schmitt (1997).

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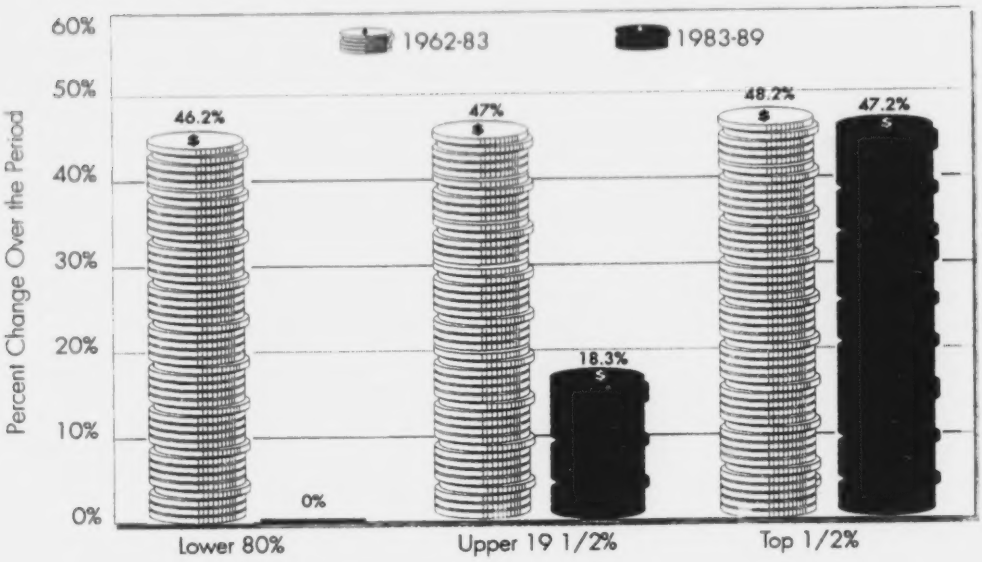
THE RICH GET RICHER

In addition to patterns of wage growth that favor high-income earners and their families, growth in net wealth (assets including stocks, bonds, mutual funds, and real estate minus debt) has also been disproportionately skewed toward the wealthy in recent years. Between 1962 and 1983, wealth increased an average of about 47% for all families, both rich and poor. Between 1983 and 1989, however (the last year for which these data have been analyzed), growth in assets became markedly uneven. For the 80% of families with the least wealth there was no growth in assets, while the top one-half of 1% of families saw their net assets rise 47.2%. Note that this large increase occurred over just a six-year period.

This uneven growth further concentrated the ownership of wealth among the wealthy. In 1962, the richest 20% of families owned 81.0% of all wealth and the poorest 80% owned 19.1%. (The richest one-half of 1% of families owned 25.9% of all wealth.) In 1989, the share of wealth owned by the wealthiest 20% had risen to 84.6% (the very richest one-half of 1% owned 31.4%) and the share owned by the poorest 80% of families had fallen to 15.4%.

The well-off gain...

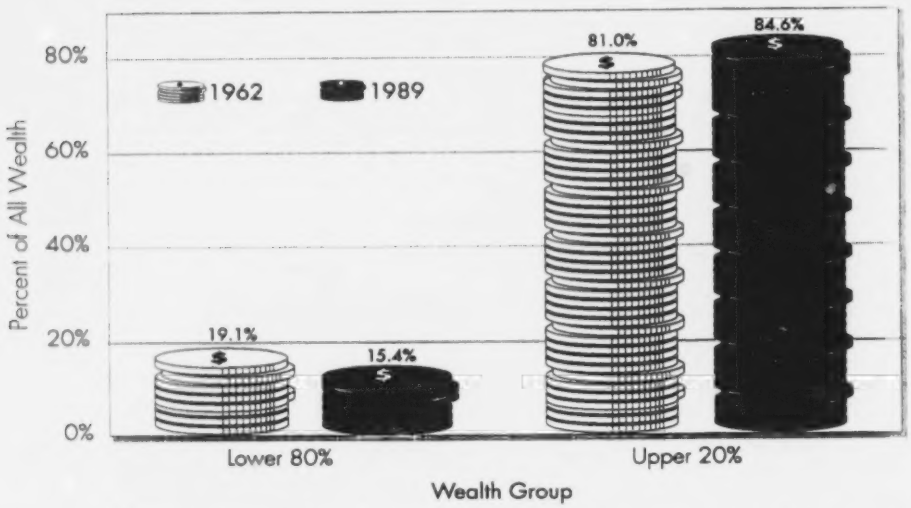
FIGURE 14A: Change in Wealth, 1962-83 and 1983-89



Note: The four-fifths of all families with the least wealth are in the lower 80% category. The one-half of 1% with the greatest wealth are in the top 1/2%. The remaining 19 1/2% of families are in the middle category. Wealth is net worth (assets minus debts).
Source: Authors' analysis of Wolff (1994a).

...and increase their hold on the nation's assets

FIGURE 14B: Concentration of Wealth, 1962 and 1989



Note: The four-fifths of families with the least wealth are in the lower 80%. The one-fifth of families with the most wealth are in the upper 20%. Wealth is net worth (assets minus debts).
Source: Wolff (1994a).

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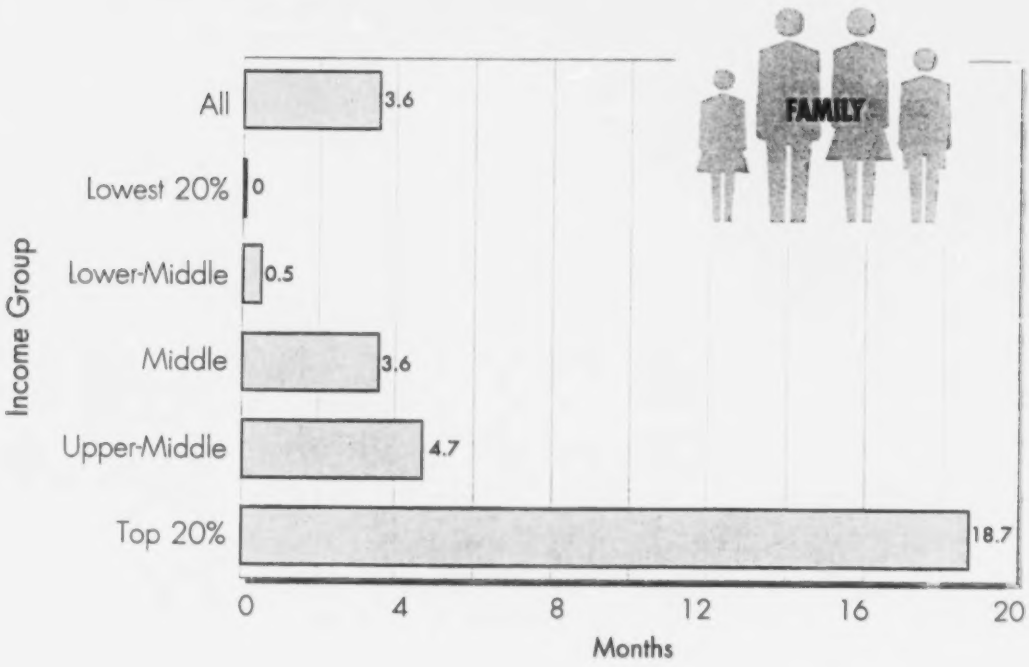
LESS TO FALL BACK ON

Because families are accumulating fewer assets, they have less to fall back on during periods of unemployment or disability. One measure of a family's wealth is the length of time it could maintain its standard of living by liquidating all its financial assets—savings accounts, certificates of deposit, stocks, bonds, and mutual funds (excluding pensions)—if it were to suddenly lose all income. The one-fifth of families with the lowest incomes have no reserves and could not maintain their standard of living for any length of time. Families in the lower-middle fifth could continue for about two weeks, while the one-fifth of families in the middle of the income distribution could continue for only 3.6 months.

Many families won't last long on savings

FIGURE 15: Months Until Family Financial Failure, 1989



Note: One-fifth of all families are in each income class. The one-fifth of families with the lowest incomes are in the lowest fifth. The one-fifth of families with the highest incomes are in the highest fifth, etc.
Source: Wolff (1994b).

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SECTION 2:

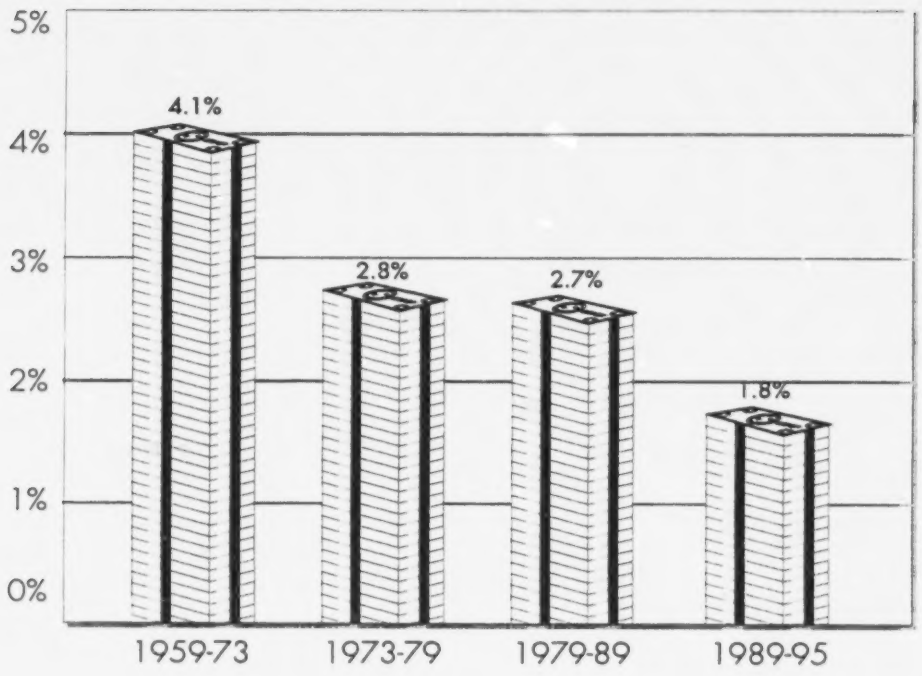
THE REASONS FOR THE DECLINE IN LIVING STANDARDS

ECONOMIC GROWTH HAS SLOWED

Between 1959 and 1973, the economy (and total national income) grew an average of 4.1% per year. At this rate, national income doubled every 17 years. Between 1973 and 1989, however, economic growth slowed to about 2.8% annually, allowing a doubling of national income every 25 to 26 years. After 1989 growth slowed to 1.8% a year, or a doubling every 38 years. This slowdown in national income growth means slower family income growth, even if all families shared equally in the income growth. It also means higher unemployment and a weakening of workers' bargaining power.

Less growth to go around

FIGURE 16: Annual Growth of the Economy



Note: Change in real GDP over business cycles.
Source: Authors' analysis of Council of Economic Advisors (1996) and U.S. Department of Commerce, Bureau of Economic Analysis (1996).

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WAGE GROWTH UNEVEN

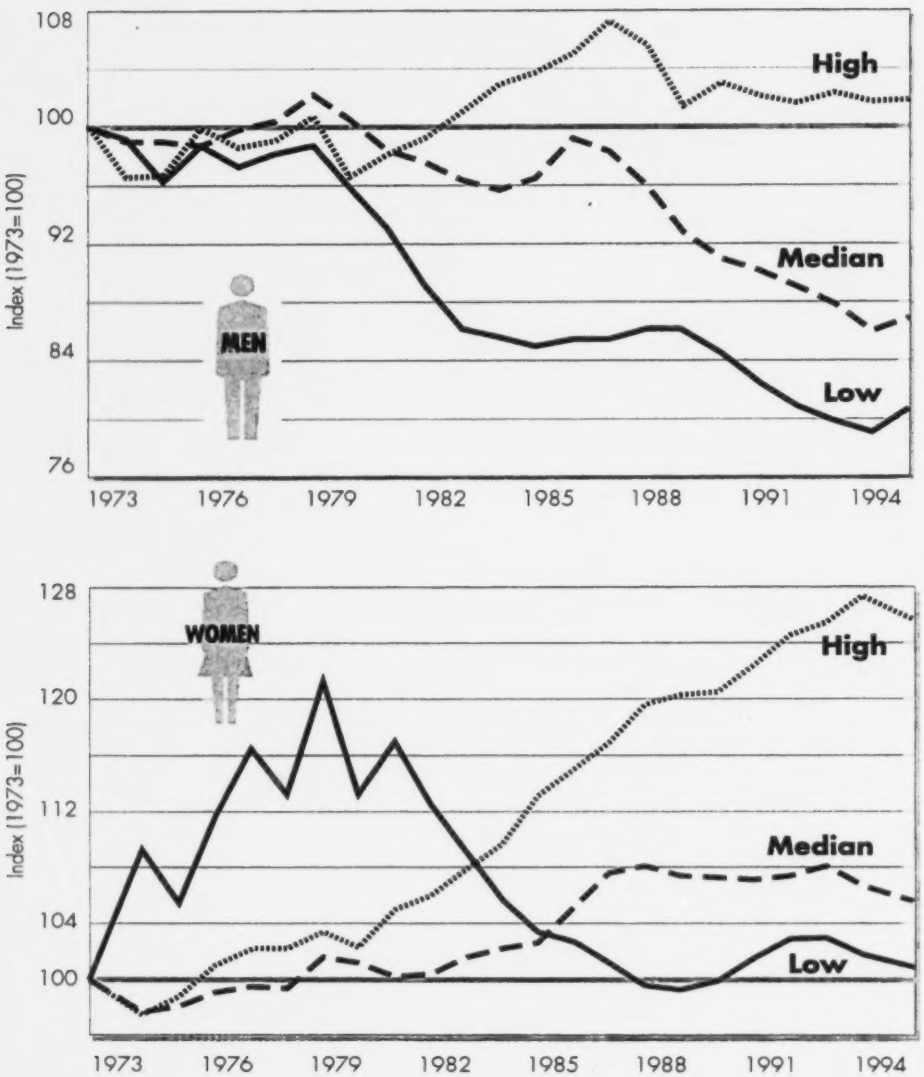
In addition to a general slowdown in growth, the distribution of income has changed so that people with higher incomes have seen much faster growth than have people with lower incomes. This is largely because people with high wages and salaries have seen a more rapid growth in earnings than have people with mid-level and relatively low earnings. Between 1973 and 1979, a male worker at the median—who earned more than half of all workers but less than the other half—saw his wage rise 2.2%. But the median wage fell 14.9% between 1979 and 1995—from $13.66 to $11.62, a difference of $2.04 per hour. Low-wage men whose wages were at the 10th percentile (where 10% of men have lower earnings and 90% earn more) saw even faster wage declines of 19.3% between 1973 and 1994. High-wage men at the 90th percentile (where 90% of men earn less and 10% earn more) saw their earnings rise a meager 1.8% between 1973 and 1994.

Wage inequality has also grown for women, but only low-wage workers have seen wage declines. The median wage for women rose 5.7% between 1973 and 1995. Low-wage women at the 10th percentile experienced a large increase of 21.3% between 1973 and 1979, but since 1979 their wages have declined 16.8%. For high-wage women at the 90th percentile, wages rose 25.6% between 1973 and 1995.

The widening disparity in wage growth is illustrated in these charts by the fanning out of the lines (i.e., the growing gap between low-wage and high-wage earners. This pattern is especially apparent after 1979 for men and after 1983 for women.

Nearly all wage gains go to high earners

FIGURE 17: Change in Wages, 1973-95



Note: Low-wage workers are at the 10th percentile; they receive a higher wage than 10% of workers and a lower wage than 90% of workers. High-wage workers are at the 90th percentile; they receive a higher wage than 90% of workers and a lower wage than 10% of workers. The worker at the median receives a wage that is higher than one-half and lower than one-half of all workers. Hourly wages for salaried workers are included.

Source: Mishel, Bernstein, & Schmitt (1997).

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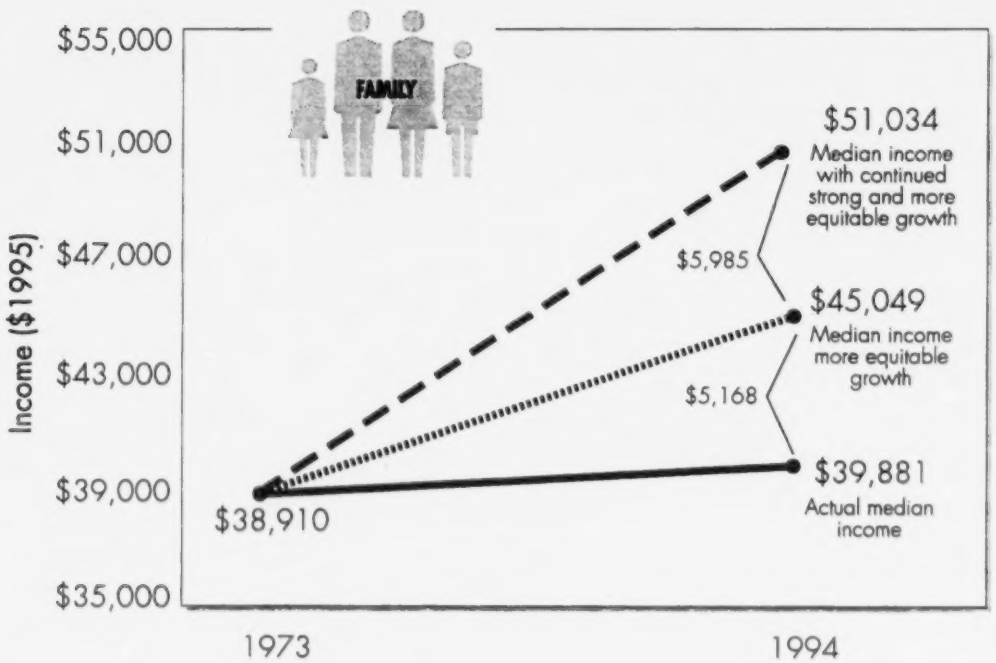
THE COSTS OF SLOW AND UNEVEN GROWTH

In 1973, actual median family income was $38,910. It rose modestly to $39,881 by 1994. But if incomes for families at each income level had continued to grow at the same rate as they had prior to 1973 (meaning that they would have grown at the same rate as average income), then median family income would have equaled $45,049 in 1994, $5,168 above its actual level. In other words, in 1994 alone, the cost to the median family of 21 years of unequal income was $5,168.

What about the effect of the slowdown in growth? Had family income growth been not only more equitable but also more rapid during the 1973-94 period—say, half the rate of the 1947-73 period (or 1.3% annually, instead of the actual growth rate of 0.1%)—then median family income would have reached $51,034 in 1994. In other words, if the economy had grown after 1973 at just half the rate of the 1947-73 period, median family income in 1994 would have been another $5,985 higher. The combined effect of both the general slowdown and the skewing of the distribution of income amounted to a loss of $11,153 to the median family in 1994, a 22% cut over what that family might have received. If the rate of growth had continued at the same high rate of the 1947-73 period, then median family income in 1994 would have reached an even higher $66,705, a jump of $21,656.

Families pay the price of slow and uneven growth

FIGURE 18: Cost to the Median Family of Slowed and Skewed Income Growth



Note: Income has been adjusted for inflation.
Source: Authors' analysis.

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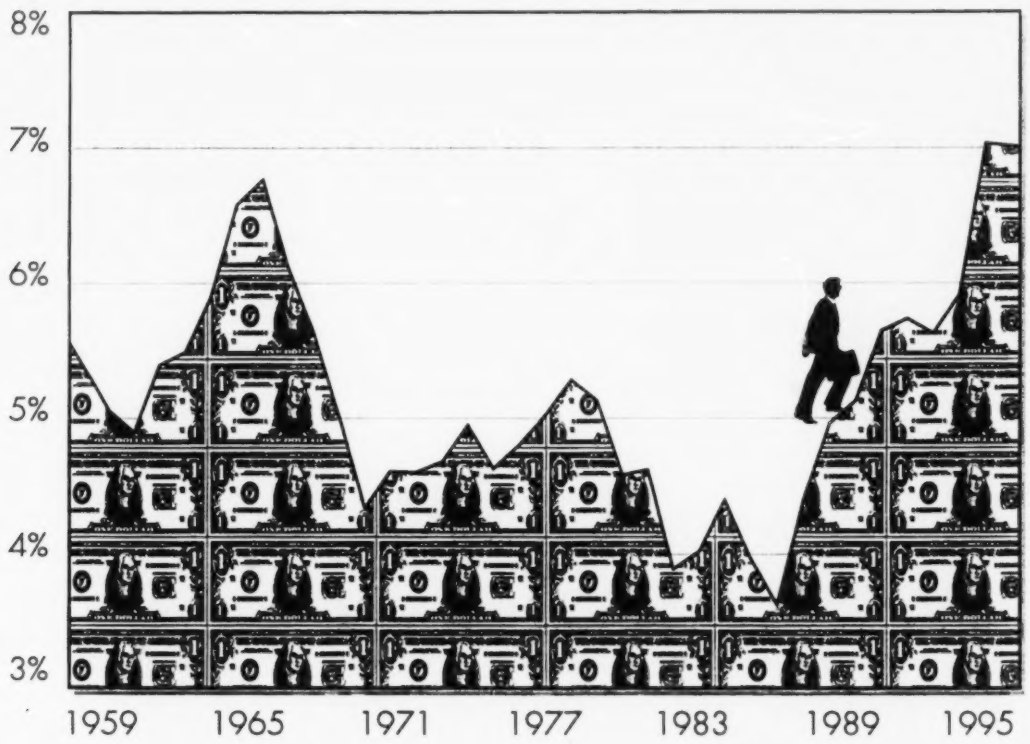
PROFIT RATES AT RECORD HIGHS

The third factor contributing to the decline in wages is the rise in the profit rate for corporations. These firms are taking a larger share of national income as profits, compared to the size of their investments and assets. The 1995 rate of after-tax profits (profits remaining after a firm has paid its taxes) was at its highest level since 1959. After-tax profits are high both because before-tax profits are high and because corporate tax rates have been falling.

After-tax profits soar

FIGURE 19: Corporate Profits, 1959-95



Note: After-tax profits as a share of capital stock.
Source: Baker (1996).

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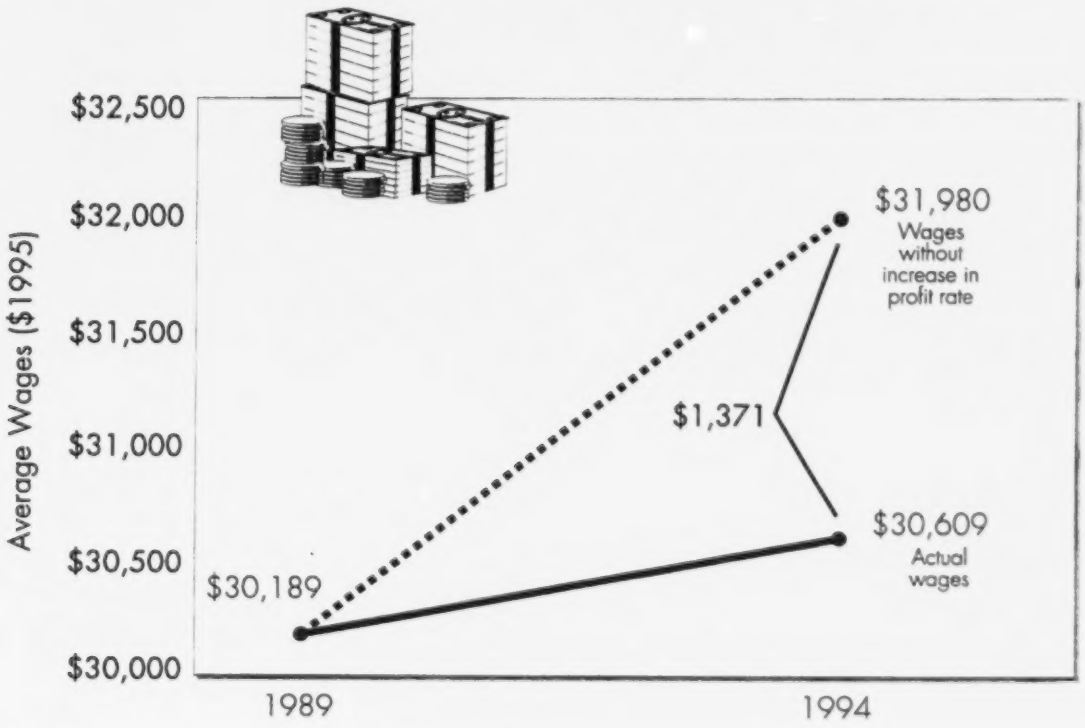
THE COST OF HIGHER PROFITS

As profits rise, less money is available for wages. This has contributed to a squeeze on wages in the 1990s and depressed family incomes. If the profit rate had not risen during the 1990s but instead had remained at its 1989 level (which was approximately the average for the 1959-79 period), an additional $123 billion could have been paid out in wages and salaries in 1994. As a result, average annual wages per full-time worker would have been $1,371 higher in 1994 than they otherwise were.

Workers pay the price of high profit rates

FIGURE 20: High Profits at the Expense of Workers' Annual Wages, 1994



Note: Wages have been adjusted for inflation.
Source: Authors' analysis of Baker & Mishel (1995), and U.S. Department of Commerce (various years).

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SECTION 3:

THE CAUSES OF THE SLOWDOWN IN GROWTH

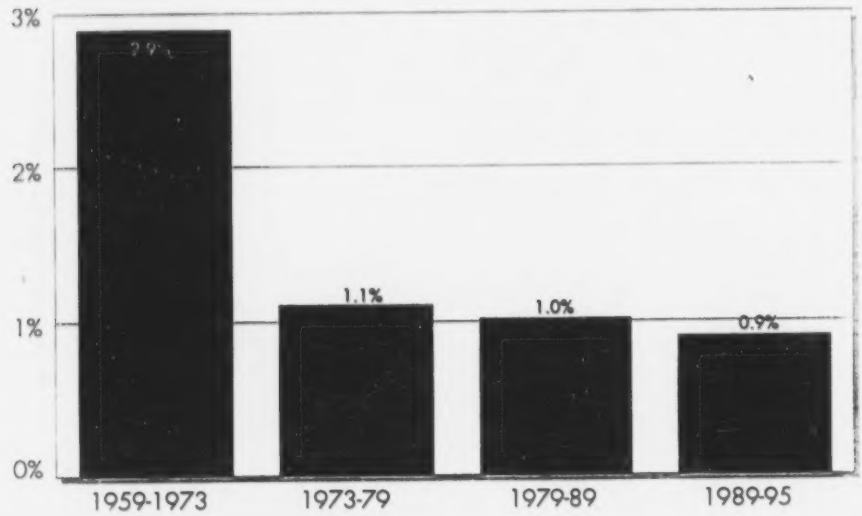
SLOWER PRODUCTIVITY GROWTH

Productivity is a measure of how much can be produced with a given amount of materials, machinery, and personnel. If productivity growth is high, our ability to produce goods and services is growing rapidly. Wages should also rise, since workers are producing more and their value to employers is growing. However, a slowdown in productivity growth means that the rate of overall national economic growth, and consequently wage and family income growth, are slower. Between 1959 and 1973, annual productivity growth averaged 2.9%, over three times the rates of the 1970s, 1980s, or 1990-95, which averaged only about 1%. The slowdown in productivity growth is a major cause of the slowdown in economic growth.

Low productivity growth may result in slow wage growth, but it cannot explain falling wages. Thus, the fact that compensation (wages plus the value of fringe benefits) for the median worker is falling cannot be due solely to a slowdown in productivity growth. It is also the result of growing wage inequality and the profit squeeze on wages.

Only modest gains in output per worker

Figure 21: Annual Productivity Growth Over Business Cycles, 1959-95



Note: Productivity is output per worker per hour.
Source: Authors' analysis of Council of Economic Advisors (1996).

Productivity slows, but compensation falls

FIGURE 22: Productivity and Median Compensation, 1973-95

Source: Mishel, Bernstein, & Schmitt (1997).

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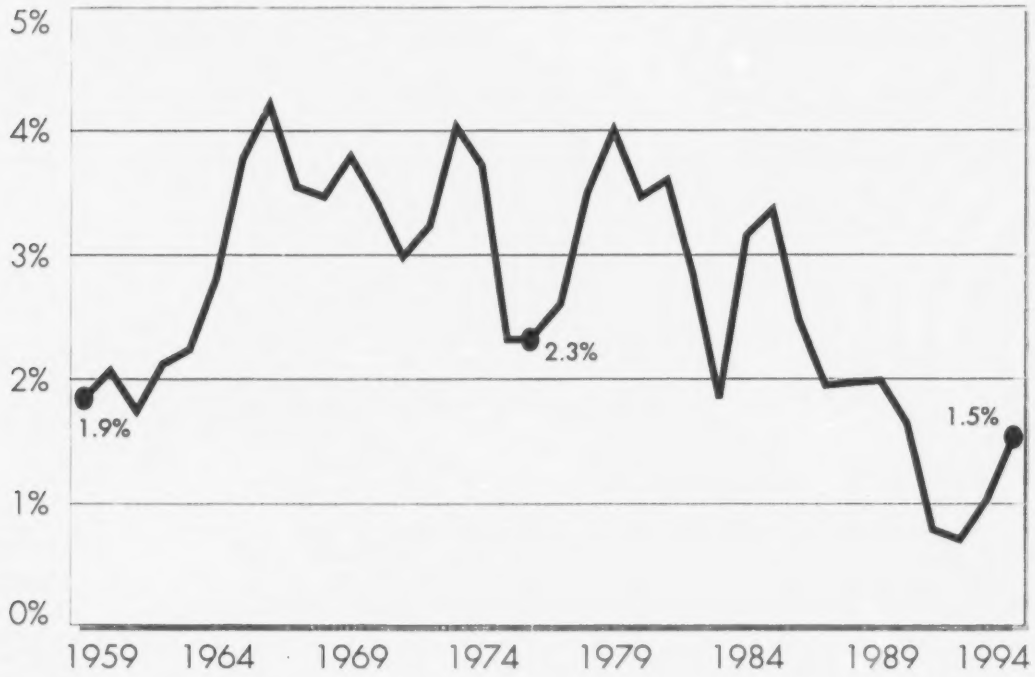
PRIVATE INVESTMENT FALLS

Growth in productivity depends on many factors. One is private investment in plants and new equipment. To sustain a growing economy, at the very least a constant share of national income needs to be spent on research and development and maintaining and upgrading plant and equipment. But throughout the 1980s and into the 1990s, the share of national income spent on investment has been falling.

Less income devoted to private investment

FIGURE 23: Private Investment as a Share of National Income, 1959-94



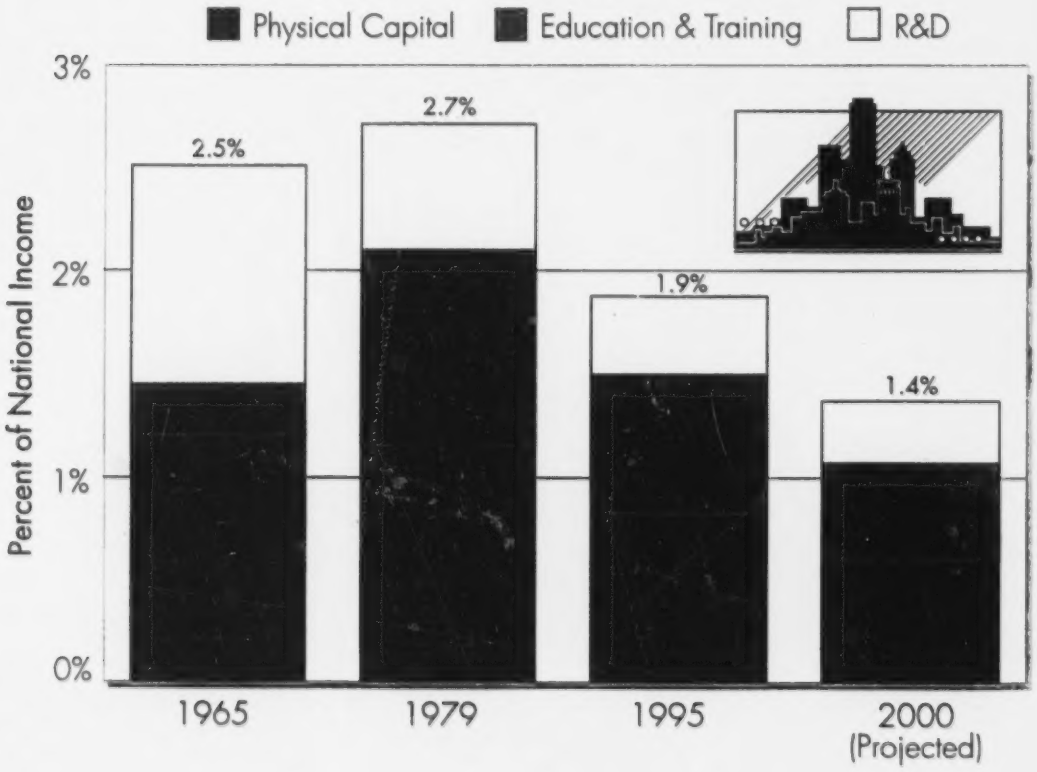
Note: Net private investment.
Source: Authors' analysis of U.S. Department of Commerce, Bureau of Economic Analysis electronic data.

PUBLIC INVESTMENT FALLS

The public sector (i.e., government) makes important contributions to national investment. Government is responsible for the construction of much of the nation's physical infrastructure, such as roads, bridges, airports, sewer and water systems, and subway systems. The government also pays for education and training and R&D. Since the early 1980s, investment by the federal government has declined by nearly a third. Federal budget projections show this downward trend continuing through the year 2000.

Less income devoted to public investment

FIGURE 24: Public Investment by the Federal Government, 1965-2000



Note: Projection for 2000 is from authors' analysis of OMB projections.
Source: Baker & Schafer (1995).

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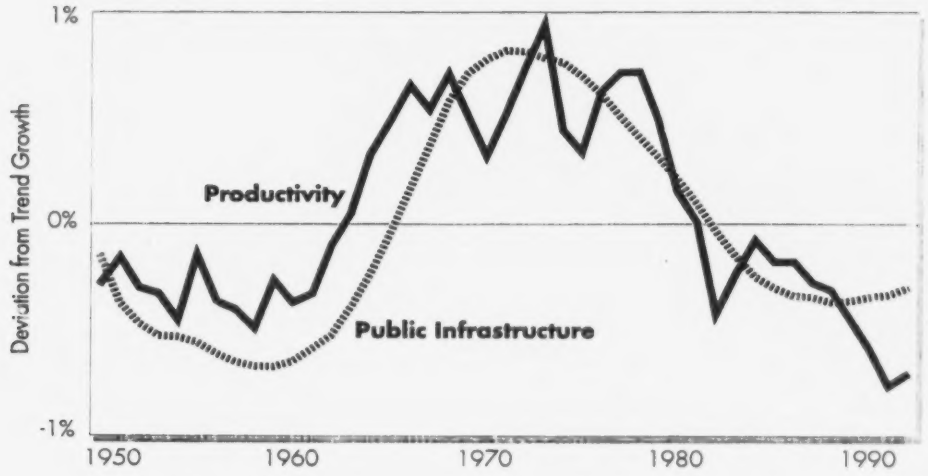
HIGHER PRODUCTIVITY REQUIRES PUBLIC INVESTMENT

Government investment in infrastructure contributes to the productivity of the economy as a whole, including the productivity of private firms. The greater-than-usual rise in accumulated public capital that occurred during the late 1960s and throughout the 1970s was accompanied by a parallel increase in private-sector productivity.

An examination of the seven major industrialized countries shows that higher levels of public investment are associated with higher productivity growth. Between 1978 and 1990, the U.S. had both low levels of public infrastructure investment and low rates of productivity growth.

Productivity and government investment go hand in hand...

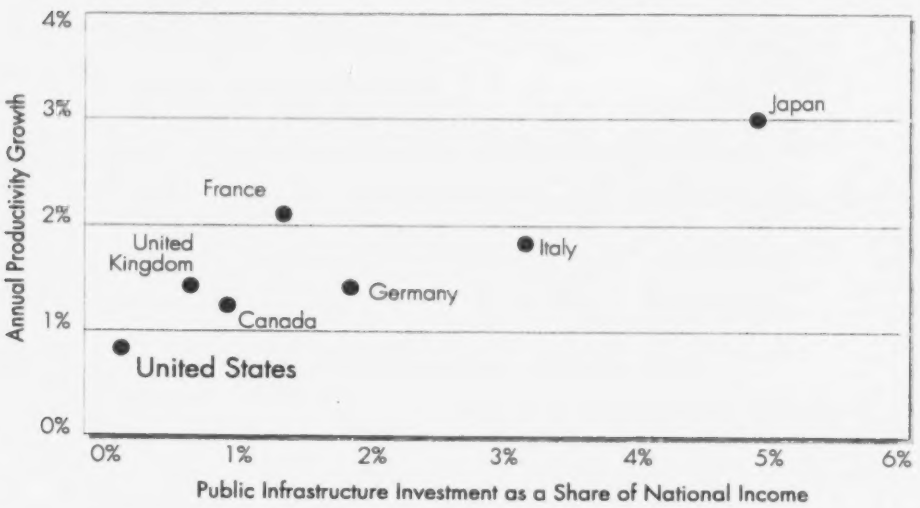
FIGURE 25: Change in Public Infrastructure and Productivity, 1950-92



Source: Baker & Schafer (1995).

...in the U.S. and around the world

FIGURE 26: Public Investment and Productivity Growth in Seven Major Industrialized Countries, 1978-90



Note: As public investment as a share of national income increases (moving from left to right on the chart), productivity growth also rises (moving up the chart).
Source: Baker & Schafer (1995).

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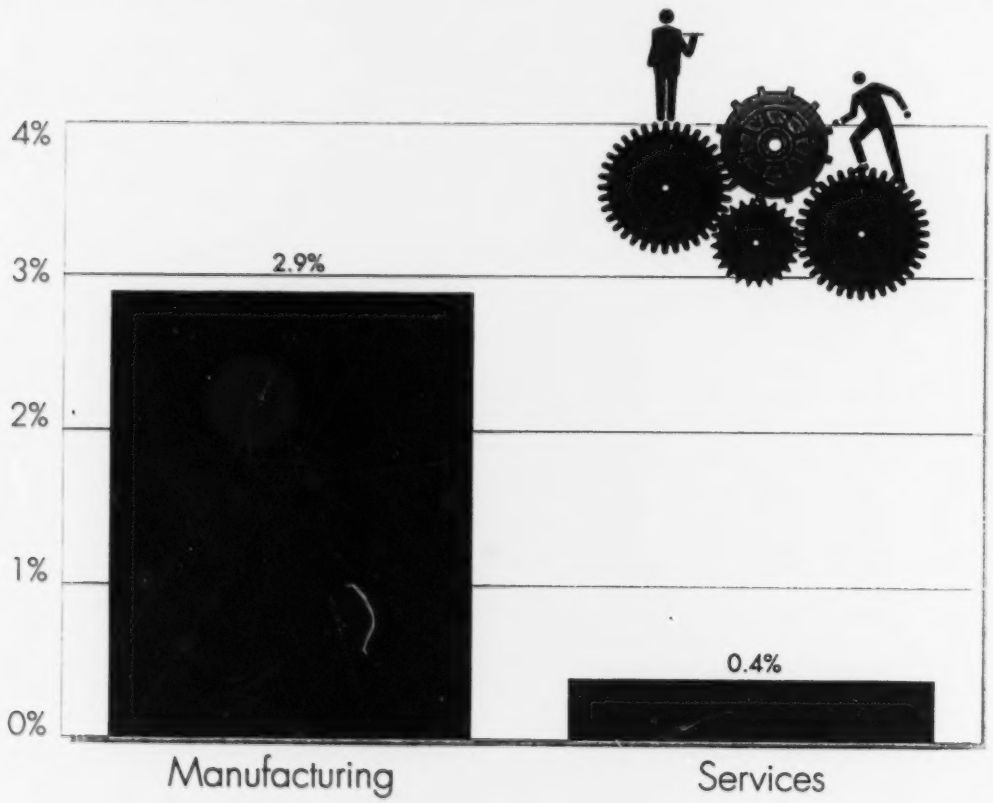
JOBS SHIFT TO LOWER-PRODUCTIVITY SERVICE SECTOR

Employment is shifting from manufacturing to services. But productivity growth is consistently higher in manufacturing than in services. Between 1979 and 1993, productivity growth in manufacturing averaged 2.9% annually; it averaged only 0.4% in services. This means that, as jobs in manufacturing decrease and jobs in service industries increase, national productivity growth will fall. Slower productivity growth means slower wage and income growth.

Productivity grows slowly in service sector

FIGURE 27: Annual Productivity Growth in Manufacturing and Services, 1979-93



Source: Authors' analysis U.S. Department of Labor, Bureau of Labor Statistics (unpublished), and U.S. Department of Commerce, Bureau of Economic Analysis, electronic data.

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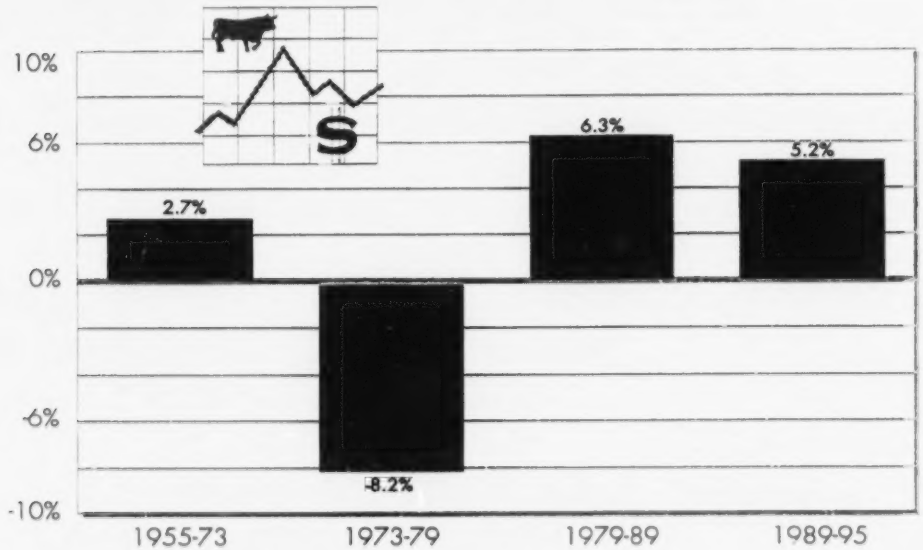
BUSINESSES FOCUS ON SHORT-TERM PROFITS

Throughout much of the 1980s and 1990s, the stock market rose dramatically, much more rapidly than in the 1960s, when economic growth was stronger. But the performance of the stock market does not necessarily reflect the current or future economic well-being of workers or the economy. The current run-up in stock prices is not associated with higher productivity growth or greater investments that would stimulate higher economic growth in the long run. Moreover, an excessive focus on stock prices can be detrimental to the economy. A board of directors often judges a chief executive officer's performance by the value of the company's stock. But this encourages short-run thinking and actions that will boost stock prices but that may not be in the company's best interests in the long run. For example, Wall Street frequently rewards downsizing with an increase in stock prices, even when the company had already been profitable and there is little reason to suspect it employs excess workers.

The way in which many CEOs are paid can also encourage a focus on stock prices and short-term results. For many CEOs, pay is determined, in large part, by the price of the company's stock. CEO pay is at a record high. In 1965, average pay of the CEOs of major U.S. companies was 39.5 times the wages of the average worker. By 1995, pay for these CEOs was 172.5 times that received by the average worker. These high stakes may result in an excessive focus on stock prices and short-term results that may not be in the best long-term interests of companies, workers, or the economy.

As economic growth lags, stocks rise...

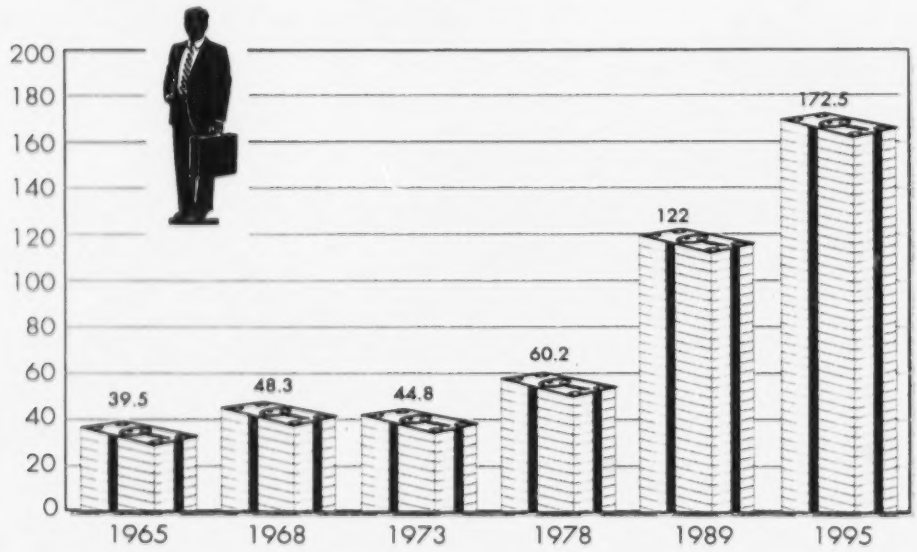
FIGURE 28A: Annual Growth in the Stock Market, 1955-95



Note: Data are for the S&P 500 index adjusted for inflation.
Source: Authors' analysis of Council of Economic Advisors (1996).

...and CEO pay booms

FIGURE 28B: Ratio of CEO Pay to Average Worker's Pay, 1965-95



Note: Average pay for CEOs of major U.S. companies.
Source: Authors' analysis of Lublin (1996).

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HIGH INTEREST RATES SLOW GROWTH

Real interest rates (actual interest rates adjusted for inflation) have been substantially higher during the 1979-95 period than in 1959-79. These high rates are largely the result of actions by the Federal Reserve Board (the "Fed") to prevent inflation. When unemployment falls below targeted levels or the rate of economic growth begins to rise, the Fed begins to worry about inflation and intervenes to raise interest rates. This slows economic growth and raises unemployment. Unemployment levels that we today consider quite low are actually much higher than they were in the 1960s. While high interest rates were not a factor in the slowdown in growth in the 1970s, the Fed bears a responsibility for keeping unemployment high and limiting economic growth during the past 15 years.

Inflation-adjusted interest rates remain high

FIGURE 29: Interest Rates, 1959-95

Note: Interest rate is the prime rate charged by banks, adjusted for inflation.
Source: Authors' analysis of Council of Economic Advisors (1996).

UNEMPLOYMENT AND UNDEREMPLOYMENT RISE

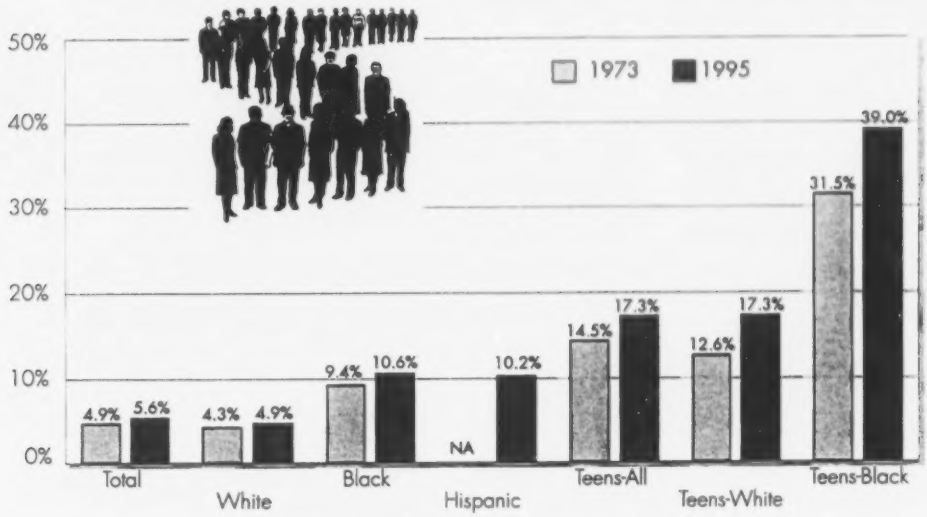
While the unemployment rate varies by race, ethnicity, and age, unemployment for all groups has been rising over the past two decades. In the 1960s, unemployment averaged 4.8%. The rate rose to 6.2% in the 1970s and to 7.3% in the 1980s. Between 1990 and 1996, the rate has averaged 6.4%. In 1995 it was 5.6%, and approximately 7.4 million people were unemployed.

Some population groups consistently experience higher rates of unemployment. Minority workers face unemployment rates that are about twice the rate for whites. Among teenagers age 16-19, unemployment is roughly three times the overall level and far higher still for minority teens. Thus, when the Federal Reserve Bank targets a particular rate of overall unemployment in the economy, say 5.5%, it is simultaneously subjecting minority adult workers to unemployment of about 10% or 11% and minority teens to an unemployment rate approaching 30% to 35%.

Along with unemployment, underemployment has also risen over the past 25 years. (People are considered underemployed if they are unemployed and looking for work, working part time but wanting full-time work, or available and wanting to work but not employed or looking for work). The underemployment rate is approximately twice the unemployment rate. Underemployment is higher for minority workers than whites and higher for women than men. In 1994, 10.2% of male workers and potential workers (7.3 million men) were underemployed. The rate was 9.0% for white men (5.5 million), 19.0% for black men (1.4 million), and 15.7% for Hispanics (1.1 million). Among women, 11.3% (6.9 million) were underemployed in 1994; the rate was 9.9% for white women (5.1 million), 19.2% for black women (1.5 million), and 19.0% for Hispanic women (933,000).

Minorities hit hardest by unemployment...

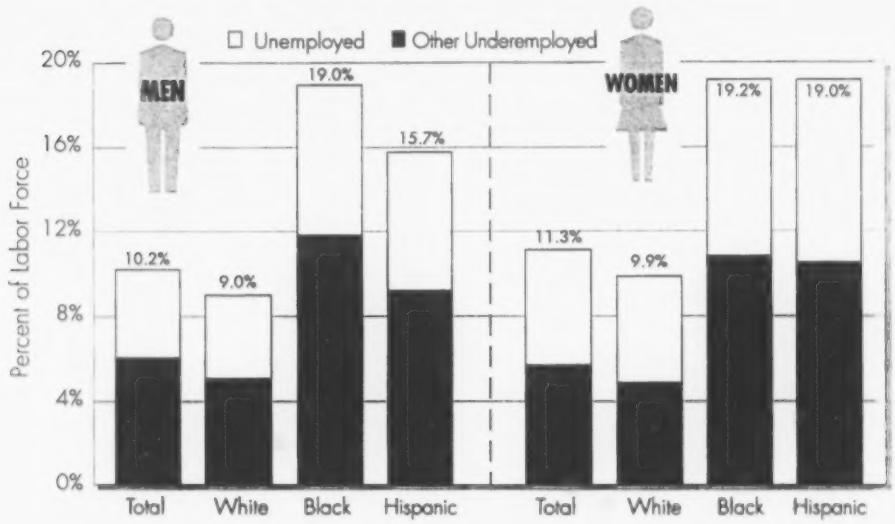
FIGURE 30: Unemployment, 1973 and 1995



Note: Data on Hispanic teens for 1973 unavailable.
Source: U.S. Department of Labor, Bureau of Labor Statistics, various years.

...and underemployment

FIGURE 31: Underemployment by Sex and Race, 1994



Note: Other underemployed people are those who are working part-time because they cannot find full-time work and people who are not working and are available for work but are not looking for work.
Source: Authors' analysis of U.S. Department of Labor, Bureau of Labor Statistics (unpublished).

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SECTION 4:

THE CAUSES OF GROWING INCOME INEQUALITY

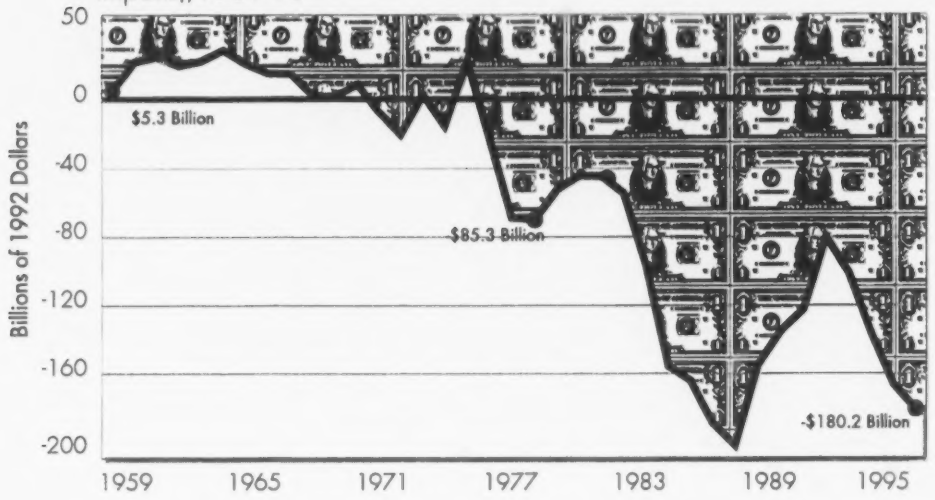
LOSS OF MANUFACTURING JOBS HURTS THE WORKING CLASS

In recent decades, the share of the labor force employed in manufacturing has been declining. This is the result of a number of factors, including productivity gains in manufacturing, which have permitted more goods to be produced with fewer workers, and the growing trade deficit in manufactured goods. In 1995, U.S. imports of manufactured goods exceeded exports by $180.2 billion. The trade deficit in manufactured goods contributes to the loss of jobs in manufacturing. In 1979, 23.4% of workers were employed in manufacturing; by 1995, the share had declined to 15.8%.

Historically, manufacturing has been an important source of well-paying jobs for workers without college degrees. When these jobs are lost, workers are forced to look for employment in the service sector, where they compete with other non-college-educated workers for jobs. But there are relatively fewer good jobs in services than in manufacturing. For example, in 1993, average hourly compensation in manufacturing was $20.09, compared to $15.51 in services (1993 dollars). Thus, a consequence of the decline in manufacturing employment has been depressed wages for workers without college degrees.

As reliance on imported manufactured goods grows...

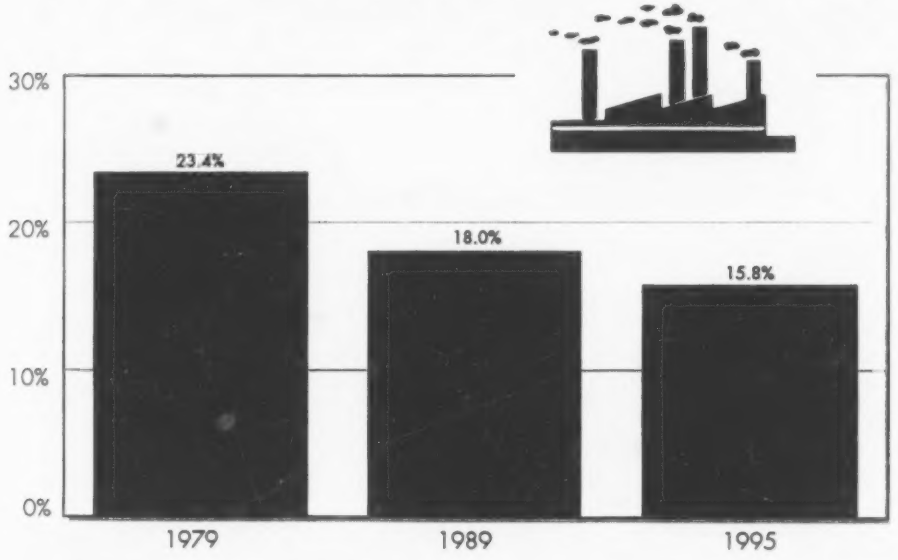
FIGURE 32A: Trade Balance in Manufactured Goods (Exports Minus Imports), 1959-95



Note: Adjusted for inflation.
Source: Authors' analysis of Council of Economic Advisors (1996).

...U.S. manufacturing employment falls

FIGURE 32B: Share of Employment in Manufacturing 1979, 1989, and 1995



Source: Mishel, Bernstein, & Schmitt (1997).

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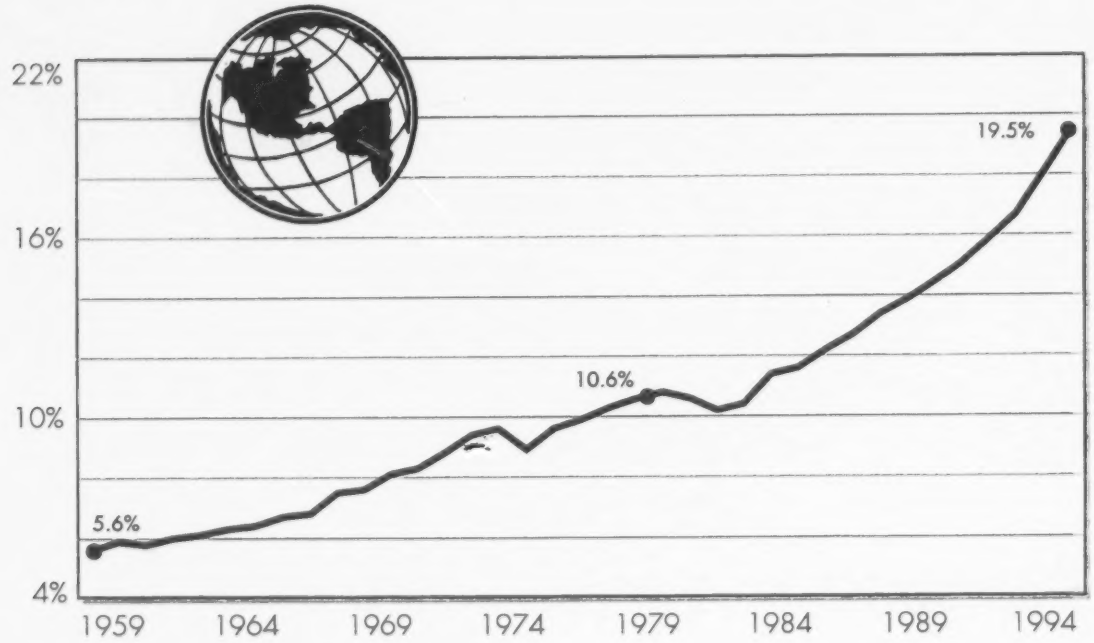
TRADE PUTS DOWNWARD PRESSURE ON WAGES

Since 1959, the volume of merchandise trade—the sum of exports and imports of manufactured goods—has been a steadily rising share of the national economy, climbing from 5.6% in 1959 to 19.5% in 1995. This means that a growing share of the U.S. economy is constantly exposed to the pressures of international competition, which puts downward pressure on wages. This is most obviously the case with domestically produced goods that compete directly with imports. But the downward pressure on wages also exists in U.S. industries producing for the export sector. There, employers argue that high wages are making U.S. goods less competitive, and they have used the threat to move plants overseas to constrain wage growth.

The growing globalization of the economy—the increases in trade, the large trade deficit, and increased immigration—and the shift in employment from manufacturing to low-paying service-sector jobs are responsible for roughly one-third of the growth in earnings inequality.

Growing share of economy exposed to trade pressures

FIGURE 33: Trade in Manufactured Goods as a Share of National Income, 1959-95



Note: Trade balance is exports plus imports.
Source: Authors' analysis of Council of Economic Advisors (1996).

FALLING MINIMUM WAGE HURTS LOW-WAGE WORKERS

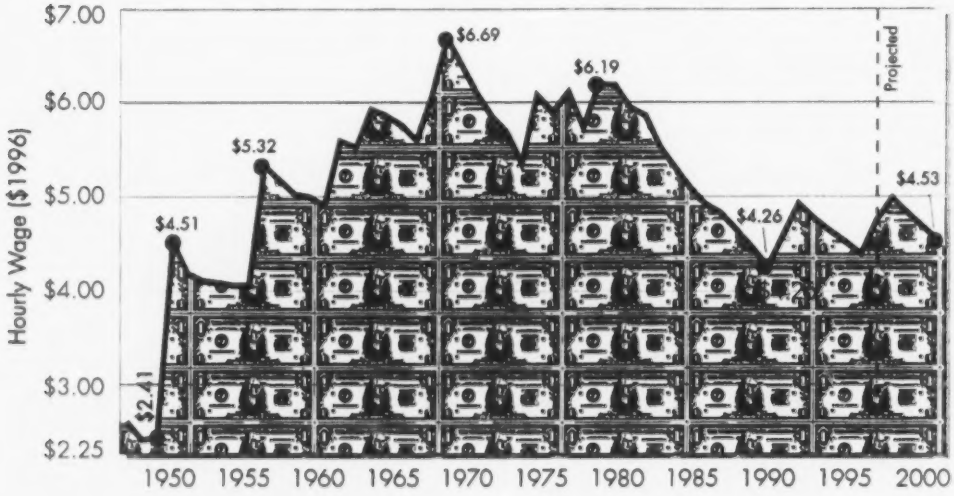
Another factor that has contributed to the fall in earnings among lower-wage workers is the decline in the value of the minimum wage. The level of the minimum wage, which is set by Congress, did not increase between 1979 and 1990, and its value was eroded by inflation. Slight boosts in 1990 and 1991 meant that its value in 1996, $4.25, was 31% below its value in 1979 (which was much below it peak value in 1969).

In the summer of 1996, Congress voted to raise the minimum wage by 90 cents: 50 cents on October 1, 1996, and an additional 40 cents on September 1, 1997. Even with these increases, by 1998 the value of the minimum wage will still be 22% below its 1979 level.

Minimum-wage workers are often portrayed as teenagers from middle- or upper-income families working to pay for cars or clothes. But the reality is different. Had the recent 90-cent increase been implemented in 1993 (the latest year for which these data on minimum-wage workers are available), the wages of over 12 million workers would have been raised; 57.6% of these workers would have been adults living in families with below-average incomes. Just 11.7% of the affected workers would have been teens living in families with above-average incomes.

Inflation-adjusted minimum wage declines

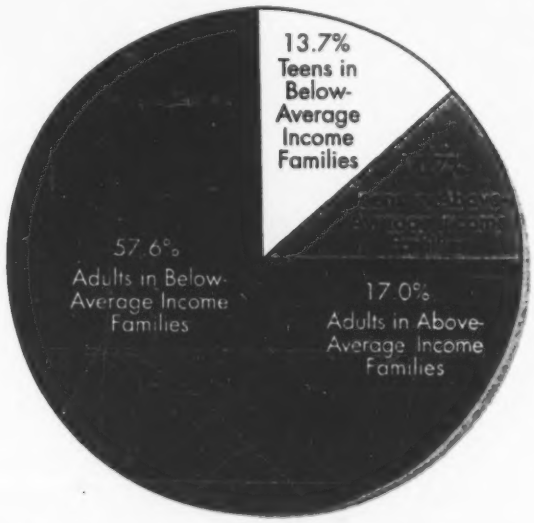
FIGURE 34A: Value of the Minimum Wage, 1947-2000



Note: Adjusted for inflation.
Source: Authors' analysis.

Low-income adults would benefit most from an increase

FIGURE 34B: Workers Who Would Benefit From an Increase in the Minimum Wage, 1993



Source: Mishel, Bernstein & Rasell (1995).

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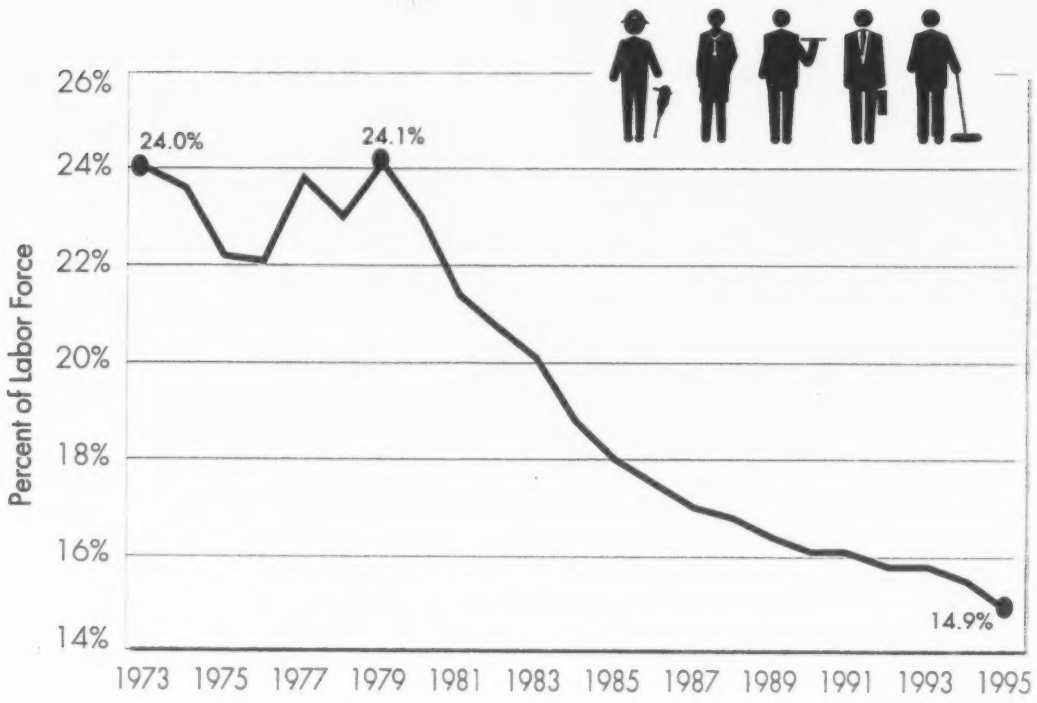
UNION COVERAGE DECLINES

The stagnation and fall in wages is also being driven by a decline in union membership. Since wages for union workers are often higher than nonunion wages, the decline in unionization has contributed to the decline in wages. Moreover, unionization often affects the wages of nonunion workers as well. When a sizable share of workers in an industry belong to a union and receive higher wages, nonunion firms are pushed to raise wages in order to attract good workers. In 1973, 24% of workers were represented by a union. By 1995, just 14.9% of workers had union representation.

The erosion of the value of the minimum wage and the decline in union representation are responsible for approximately one-third of the increase in wage inequality.

Fewer workers protected by a union

FIGURE 35: Workers Represented by a Union, 1973-95



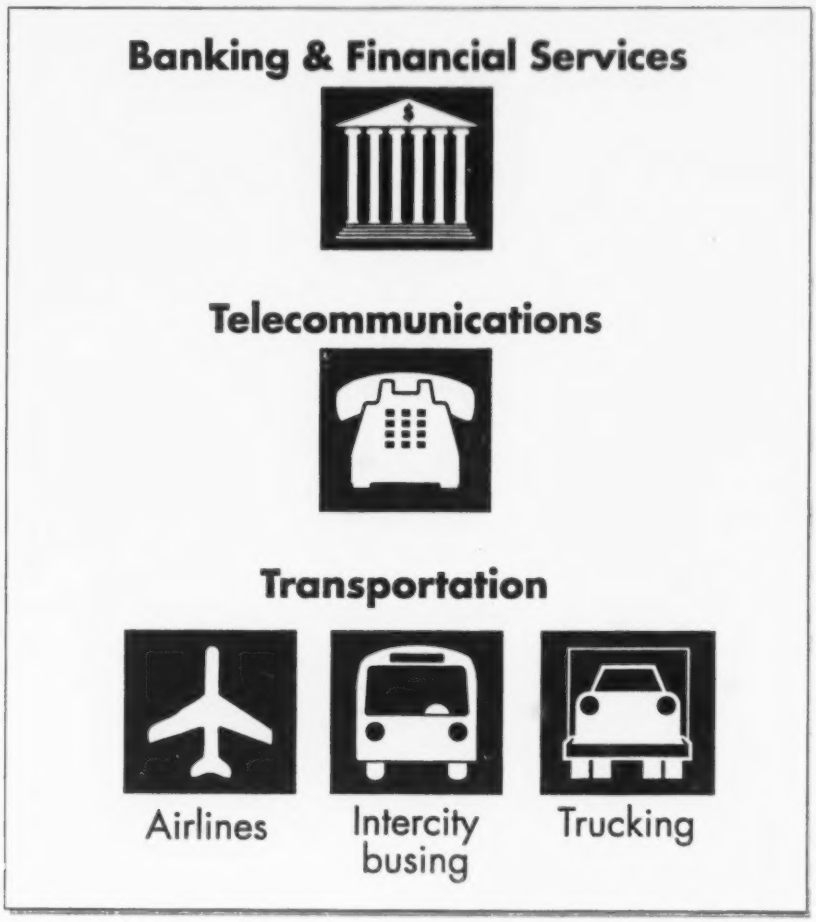
Source: Hirsch and Macpherson (1995).

DEREGULATION PUTS DOWNWARD PRESSURE ON WAGES

Deregulation has occurred in multiple industries, including banking and financial services, telecommunications, and transportation (airlines, intercity busing, and trucking). In the wake of deregulation, it is common for competition to increase, putting downward pressure on wages.

Major industries deregulated

FIGURE 36: Deregulated Industries



SECTION 5:

FACTORS THAT HAVE *NOT* CONTRIBUTED TO THE DECLINE

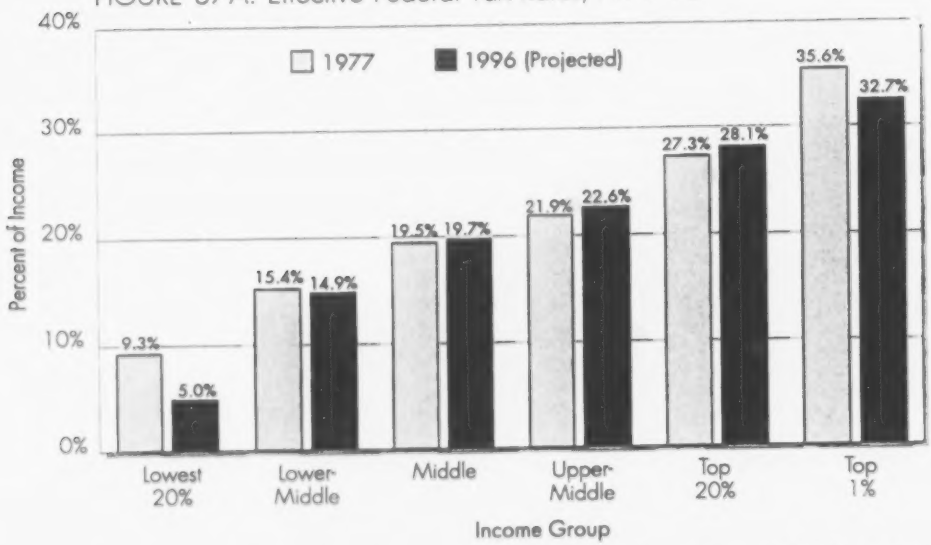
HIGH TAXES ARE NOT THE PROBLEM

Effective federal tax rates—the rates people actually pay, as opposed to their tax brackets—have changed little in the past 18 years. Effective federal tax rates are affected by changes in tax rates, allowable deductions and exemptions, tax credits, and other factors. With the exception of the one-fifth of families with the lowest incomes, who saw a drop in rates due to the earned income tax credit, and the 1% of families with the highest incomes, who also saw a decline, families saw essentially no change in effective tax rates between 1977 and 1995. Thus, today's squeeze on incomes cannot be blamed on higher taxes.

Compared with other major industrialized countries, taxes are relatively low in the United States. Among our major competitors, only Japan has a lower level of taxation.

Federal taxes are no higher...

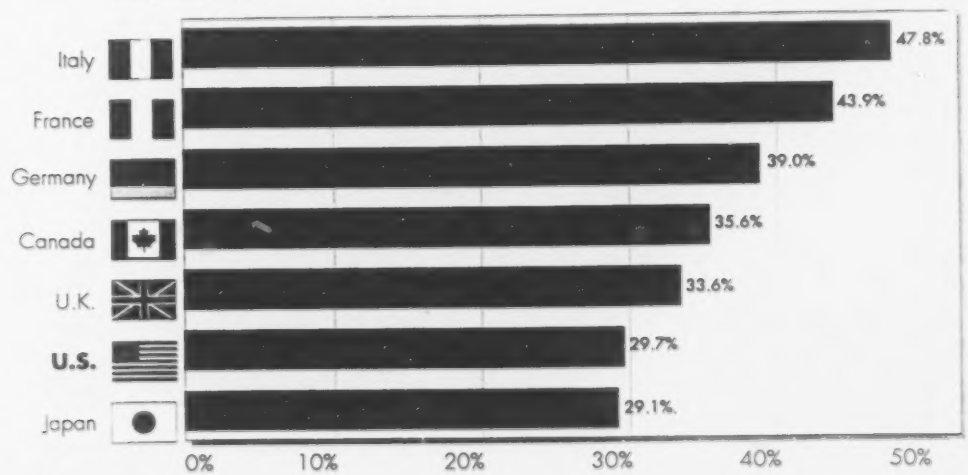
FIGURE 37A: Effective Federal Tax Rates, 1977-96



Note: Taxes included are personal income tax, payroll tax, excise taxes, and corporate income tax. One-fifth of all families are in each income class. The one-fifth of families with the lowest incomes are in the lowest fifth. The one-fifth of families with the highest incomes are in the highest fifth, etc.
Source: U.S. House of Representatives (1991), and CBO unpublished.

...and U.S. taxes are among the world's lowest

FIGURE 37B: Tax Revenue as a Share of National Income in Seven Industrialized Countries, 1993



Note: Includes federal, state, and local taxes.
Source: OECD (1995).

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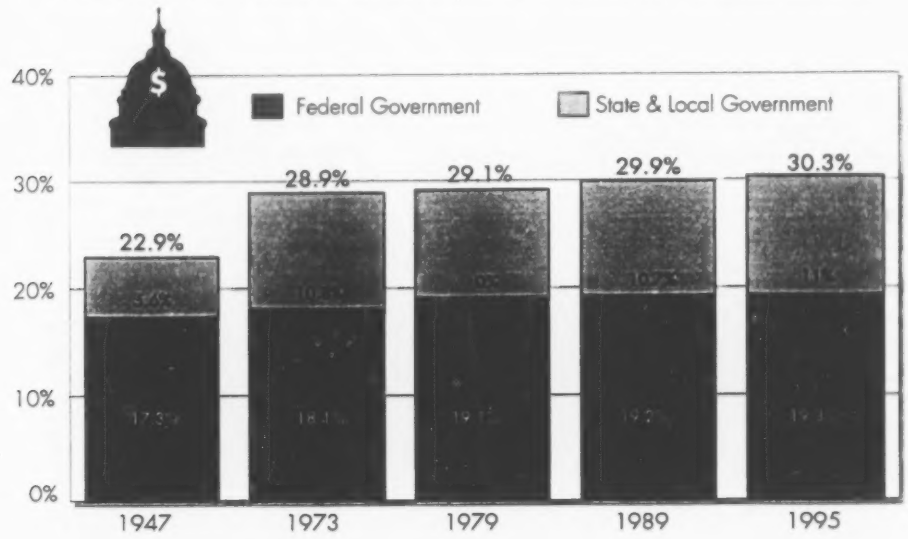
BIG GOVERNMENT IS NOT THE PROBLEM

However we measure the size of government—either as the share of national income received by governments or by the number of government employees—it has grown little in recent decades. As a share of national income, government receipts at the federal, state, and local levels rose during the early postwar period, from 22.9% in 1947 to 28.9% in 1973 and to 29.1% in 1979; federal receipts alone were 19.1% of national income in 1979. By 1995, total receipts had risen to 30.3% of national income, and federal receipts were 19.3%, essentially unchanged since 1979.

Employment in federal, state, and local government, as a share of the labor force, has declined since 1973. (State and local government employment is higher than might be expected because it includes all public elementary and secondary teachers and professors at state and community colleges.) Thus, neither the post-1973 slowdown in economic growth and productivity nor the growth in income inequality that has occurred during the past 15 years can be blamed on growth in government employment, since employment in that sector has declined during this period.

Government receipts have grown little...

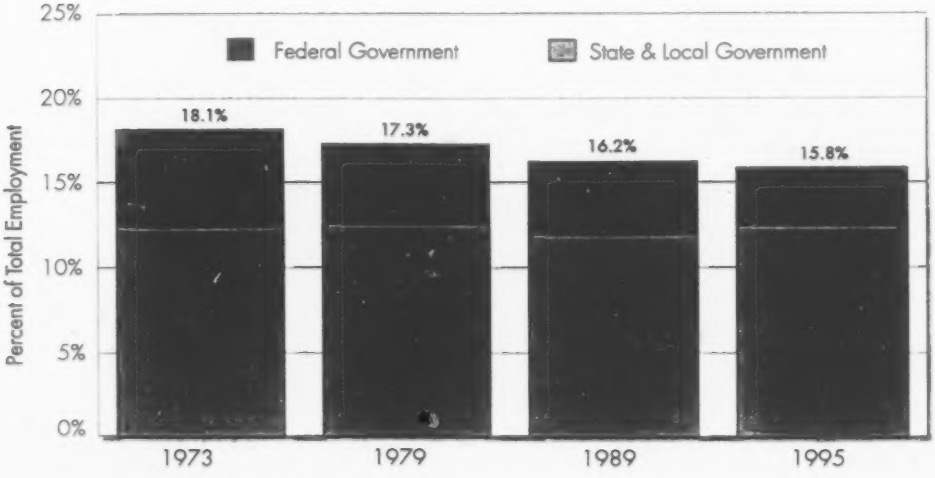
FIGURE 38A: Government Receipts as a Share of National Income



Source: OMB (1996).

...and public-sector employment has declined

FIGURE.38B: Public-Sector Employment, 1973-95



Source: Authors' analysis of OMB (1996).

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INFLATION IS NOT THE PROBLEM

Inflation rose dramatically during the 1970s, but this increase in large part was due to the rapid rise in the price of oil. In the 1980s and 1990s, inflation returned to about the level of the 1960s—the period when the economy was booming and incomes were rising rapidly. High inflation in the 1970s may have been an important cause of slowed economic growth during that decade, but, by this logic, the return to lower rates of inflation in the 1980s and 1990s should have led to a return to higher rates of growth. But this did not occur. Moreover, it is unlikely that inflation is a cause of rising income inequality, since inflation was at about the same level during the 1960s, when income gaps were narrowing, as during the past 15 years, when the gaps were widening.

Inflation falls to level of high-growth '60s

FIGURE 39: Inflation Rate, 1948-95

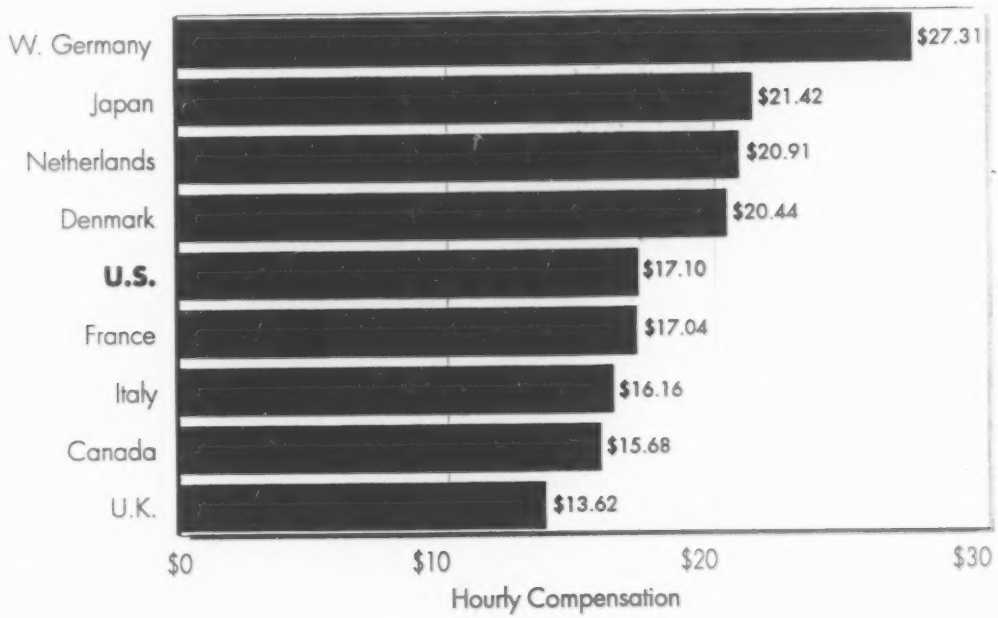
Note: Annual rate of growth in CPI-U-X1.
Source: Authors' analysis of Council of Economic Advisors (1996).

HIGH WAGES ARE NOT THE PROBLEM

The rising trade deficit and the loss of manufacturing jobs cannot be blamed on high wages for American workers, because the compensation (wages and benefits) of U.S. manufacturing workers—the people who produce most of the goods traded internationally—are quite competitive. Hourly compensation in the U.S. is lower than in western Germany, Japan, the Netherlands, and Denmark, nearly identical to compensation in France, and higher than in three other countries.

U.S. workers earn competitive wages

FIGURE 40: Wages and Benefits of Production Workers in Manufacturing, in Industrialized Countries, 1994



Source: U.S. Department of Labor, Bureau of Labor Statistics (1995).

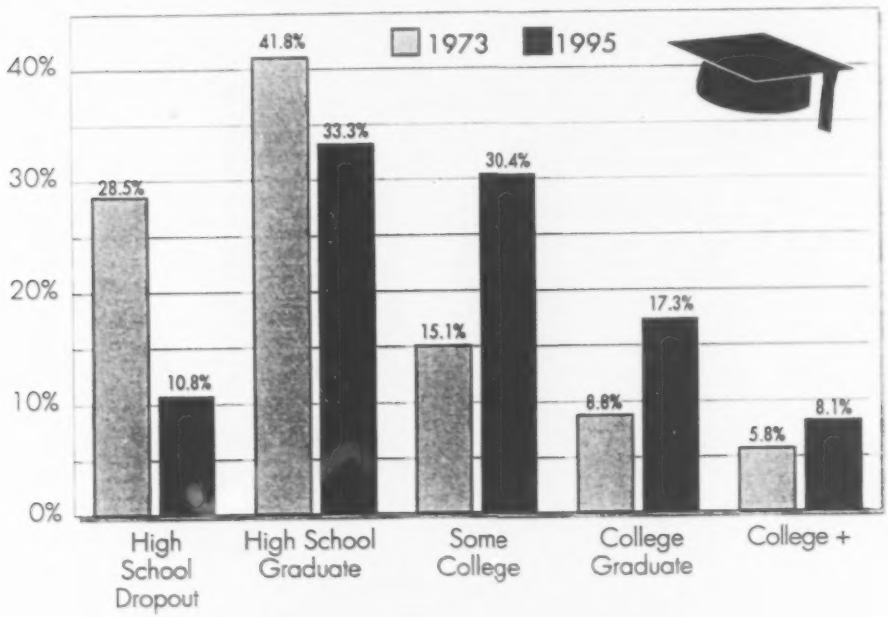
LACK OF SKILLS IS NOT THE PROBLEM

Falling wages also cannot be attributed to a deterioration in the quality of American workers. The labor force has become more educated during the past 21 years. In 1973, 28.5% of workers had not graduated from high school. By 1995, that share had fallen to 10.8%. The share of workers with only a high school diploma has fallen from 41.8% in 1973 to 33.3% in 1995 because more workers are attending college. The share of workers that have finished four years of college has nearly doubled, from 8.8% in 1973 to 17.3% in 1995.

High school achievement is also rising. Scores for 17-year-olds from the National Assessment of Educational Progress tests—which measure the achievement of all students, not just a select group who are college bound—show that performance in mathematics has risen between 1973 and 1994, and the greatest gains have been made by African Americans and Hispanics. Reading performance also improved between 1971 and 1994 and, again, the greatest gains have been achieved by minority students.

The ranks of the college-educated grow...

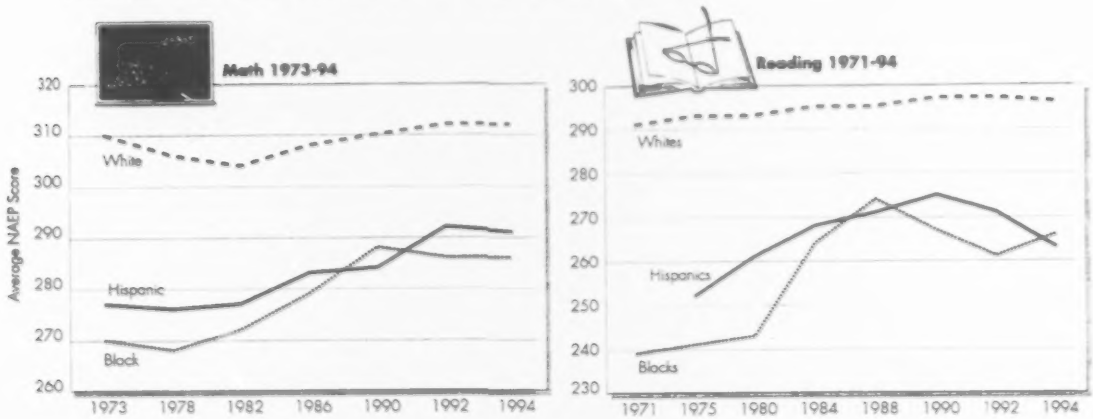
FIGURE 41:Educational Attainment of the U.S. Labor Force,1973 and 1995



Source: Mishel, Bernstein, & Schmitt (1997).

...and test scores are generally higher

FIGURE 42: NAEP Scores for 17-Year-Olds, by Race



Note: The National Assessment of Educational Progress (NAEP) is a standardized test that provides a nationally representative assessment of U.S. students.
Source: U.S. Department of Education (1995, 1996).

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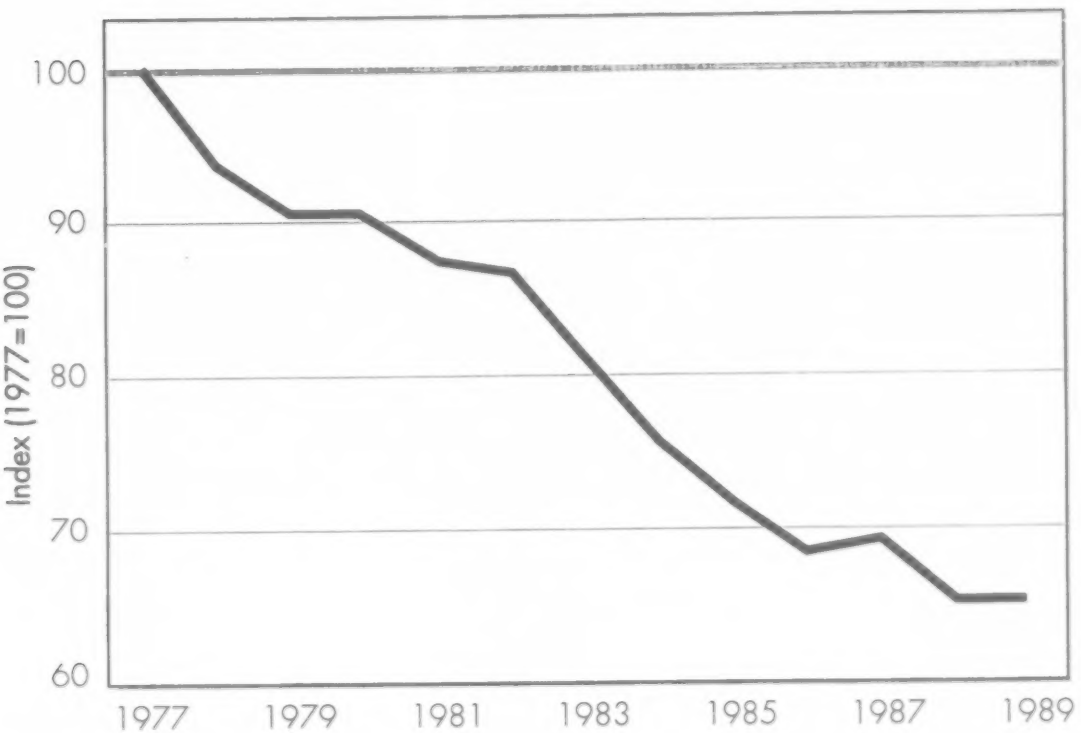
REGULATION IS NOT THE PROBLEM

Some have argued that government regulations place a costly burden on U.S. firms, stifling growth and productivity. However, the costs of regulation have been falling since 1977. If regulatory costs were the cause, our economic problems should be disappearing, not persisting.

Cost of federal regulation falls

FIGURE 43: Cost of Federal Regulation as a Share of National Income 1977-89



Source: Hopkins (1993)

SECTION 6:

WHAT SHOULD BE DONE

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WHAT SHOULD BE DONE

Reversing the 20-year trend of stagnant and falling incomes and growing inequality will not happen quickly or easily. But it can be done. The charts in this book have illustrated the two fundamental causes of the long-term decline in living standards and economic security: slow economic growth and the unequal distribution of economic gains. Understanding the causes of these trends can lead us to public policies that encourage a future path of high-wage economic growth that benefits all Americans.

Here are some common-sense steps we can take to put us on that high-wage path:

Increase the Rate of Economic Growth

- Make the economy more productive by increasing public investment in (1) transportation, water systems, and other infrastructure; (2) education, particularly early childhood, primary, and secondary education; and (3) research and development in new technologies.
- Encourage labor and management to cooperate in the development of high-performance workplaces in which employees are empowered and motivated to increase productivity and the quality of the firm's products in exchange for more secure employment and a fairer share of the firm's profits.
- Promote longer-term horizons by business leaders and investors by taxing long-term investments less and short-term investments more.
- Appoint people to the Federal Reserve Board who are committed to achieving the lowest possible level of interest rates consistent with low and stable rates of inflation. Such a policy would increase overall business activity, accelerate the demand for labor, and reduce unemployment.
- Increase our investment in retraining and upgrading of skills to assure that a steady source of skilled labor is

available to fill the growing number of new high-skill jobs and to avoid any threat of inflation.

Achieve a More Equitable Distribution of Economic Gains

- Remove the legal obstacles to organizing democratic unions that will bargain collectively with employers.
- Maintain fair labor standards, including: minimum wages that automatically rise with economic growth and inflation, enforcement of health and safety standards, and requirements that part-time and temporary workers receive pay and prorated fringe benefits comparable to those received by full-time workers.
- Regulate trade to prevent unfair trade practices and to protect workers' rights and the environment both in the United States and abroad.
- Create jobs in areas of particularly high unemployment, such as central cities and poor rural areas, through targeted public investments that put the jobless to work and at the same time make these economically depressed areas more attractive to private investment.

These policies follow from our analysis of the underlying problems America faces. They are achievable. First, however, we must realize that our current economic problems are not so much the result of forces over which we have no control, like the weather, but are heavily influenced by the economic and political choices made by political and business leaders. The solutions to our economic problems lie not in devising new, complicated economic policies. Rather, they will result from organizing the political will to pursue policies that we already know make sense and that will create economic outcomes that more closely reflect the American vision of a fair and prosperous economy.

APPENDIX

There are two ways to study trends over time. One way, used in all the charts in this book except Figures 6A and 6B, is to examine changes for all members of a group, such as the change in wages over 10 years among all workers age 25- 35. Over the 10-year period, the members of this group will change as some workers become older than 35 and leave the study population and other workers turn 25 and enter the study. Calculating the 10-year change in average wages for this group tells us about the wages paid by the jobs held by workers in this age range.

A second way to examine changes (used in Figures 6A and 6B) is to follow a particular group of people for 10 years, such as workers who were 25- to 35-years old at the beginning of the study. We allow no new workers to enter the study group. At the end of the 10-year period, when the workers are 35- to 45-years-old, we will be able to calculate the average change in income experienced by workers as they move through their working life, in this case, from ages 25 to 35 at the beginning of the study to ages 35 to 45 at the end of the study. The first type of study tells us how well the economy is doing in providing good-paying jobs for workers (in this example, for 25- to 35-year-olds). It shows how the wages of the jobs held by workers in this age group at the end of the study compare with those 10 years earlier. In other words, it shows how well the economy is creating and preserving good-paying jobs for these workers. The second type of study shows how workers' incomes change as they move through their working lives, gaining experience and possibly more education; it illustrates the real-life experiences of workers and their families. These two types of studies provide very different information; both are important to provide a full understanding of the economy.

When we do the first type of study to examine the economic changes of the past 20 years or so, we find that wages

in many jobs are declining (see Figure 3). This means that, over time, there are fewer high-paying jobs, and many jobs pay less now than in the past. In other words, the wage structure of the economy is shifting downward. However, the second type of study shows that, despite the falling wage structure, many workers experience rising incomes because they gain additional experience and education and advance to better-paying jobs (see Figures 6A and 6B). The situation many workers face is like trying to run up a down escalator; the wage structure is moving downward, but it is possible for some people to advance by improving their skills and moving to better jobs. For most workers, though, obtaining additional skills has a much smaller payoff today in terms of higher wages than in years past.

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FIGURE NOTES

In the charts throughout this book:

- All dollar amounts in figures are adjusted for inflation using the CPI-U-X1 and expressed in 1995 dollars, unless the text states otherwise.
- National income is used interchangeably with gross domestic product (GDP).
- Single-person "families" are not included in the data on families.
- Family income quintiles include equal numbers of people.
- Except where noted, Hispanics may be of any race, and accompanying data on whites and African Americans excludes Hispanics.
- Hourly wages for a salaried worker are equal to the annual salary divided by the usual number of hours worked in the year.

FIGURE 1 *Median Family Income, 1947-95* Data for 1989 revised using 1990 Census weights. Data for 1995 from Table 1, U.S. Department of Commerce, Bureau of the Census (1996). Other years from U.S. Department of Commerce, Bureau of the Census electronic data.

FIGURE 2 *Average Growth in Family Income, by Income Group.* Authors' analysis of U.S. Department of Commerce, Bureau of the Census electronic data.

FIGURE 3 *Growth in Hourly Wages, 1947-95.* Table B43, Council of Economic Advisors (1996).

FIGURE 4 *Change in Wages by Level of Education Attained, 1973-95.* Data for 1973 to 1978 from U.S. Bureau of the Census May Current Population Survey public use file. Data for 1979 to 1995 from U.S. Bureau of the Census Outgoing Rotation Group data annual public use file. The analysis appears in Mishel, Bernstein, and Schmitt (1997).

FIGURE 5 *Entry-Level Wages of High School Graduates, 1973-95.* See note to Figure 4.

FIGURE 6A *Change in Median Income of Men as They Age from 25-34 Years Old to 35-44 Years Old, by Decade.* Table B-15, U.S. Department of Commerce, Bureau of the Census (1993).

FIGURE 6B *Percentage of Adults Whose Family Income Fell Over the Decade.* Table 3, Rose (1993).

FIGURE 7 *Percent of Workers Earning Poverty-Level Wages, 1973-95.* See note to Figure 4.

FIGURE 8 *Poverty Rates, 1959-95.* Data for 1995 from Table A, U.S. Department of Commerce, Bureau of the Census (1996). Other years from U.S. Department of Commerce, Bureau of the Census electronic data.

FIGURE 9 *Poverty Rates by Age, 1995.* Data on adults from Table 2, U.S. Department of Commerce, Bureau of the Census (1996). Data for children from U.S. Department of Commerce, Bureau of the Census unpublished data.

FIGURE 10 *Workers With Employer-Provided Health Insurance or Pension Coverage, by Education Level, 1979 and 1993.* U.S. Department of Labor tabulations of CPS data. Analysis from Mishel, Bernstein, and Schmitt (1997).

FIGURE 11 *Job Stability for Men Age 24-58, 1970s and 1980s.* Rose (1995).

FIGURE 12 *Worker Displacement Rates, by Education and Sex, 1987-89 and 1993-95.* Figures 3a and 3b, unpublished data, Farber (1996).

FIGURE 13A *Share of Women in the Labor Force, 1948-95.* U.S. Department of Labor Bureau of Labor Statistics electronic data.

FIGURE 13B *Increase in Annual Hours Worked by Married Women, 1979-94.* Mishel, Bernstein, and Schmitt (1997).

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FIGURE 14A *Change in Wealth, 1962-83 and 1983-89.* Authors' analysis of data from Table 5, Wolff (1994a).

FIGURE 14B *Concentration of Wealth, 1962 and 1989.* Table 4, Wolff (1994a).

FIGURE 15 *Months Until Family Financial Failure, 1989.* Wolff (1994b).

FIGURE 16 *Annual Growth of the Economy.* Average annual change is the annualized growth rate in real gross domestic product. Data for 1959-94 from Table B-2, Council of Economic Advisors (1996). Data for 1995 from Table 1.2, U.S. Department of Commerce, Bureau of Economic Analysis (September 1996).

FIGURE 17 *Change in Wages, 1973-95.* See note to Figure 4.

FIGURE 18 *Cost to the Median Family of Slowed and Skewed Income Growth.* Median income with more equitable growth assumes that median family income grew at the rate of average family income for the 1973-94 period (0.7%). Median income with continued strong and more equitable growth assumes that median family income grew at the same rate as average family income and that average family income grew at half the rate of the 1947-73 period, or 1.3% annually.

FIGURE 19 *Corporate Profits, 1959-95.* Data for the corporate sector. Baker (1996).

FIGURE 20 *High Profits at the Expense of Workers' Annual Wages, 1994.* Excess profits in 1994 for the nonfarm business sector from Baker and Mishel (1995). Full-time equivalent private-sector employees from Tables 6.4C, 6.5C, Department of Commerce, Bureau of Economic Analysis (January-February 1996).

FIGURE 21 *Annual Productivity Growth Over Business Cycles, 1959-95.* Table B-45, Council of Economic Advisors (1996).

FIGURE 22 *Productivity and Median Compensation, 1973-95.* Figure 3J, Mishel, Bernstein, and Schmitt (1997).

FIGURE 23 *Private Investment as a Share of National Income, 1959-94.* Author's analysis of U.S. Department of Commerce, Bureau of Economic Analysis electronic data.

FIGURE 24 *Public Investment by the Federal Government, 1965-2000.* Baker and Schafer (1995).

FIGURE 25 *Change in Public Infrastructure and Productivity, 1950-92.* Baker and Schafer (1995)

FIGURE 26 *Public Investment and Productivity Growth in Seven Major Industrialized Countries, 1978-90.* Baker and Schafer (1995).

FIGURE 27 *Annual Productivity Growth in Manufacturing and Services, 1979-93.* Authors' analysis of Bureau of Labor Statistics and Bureau of Economic Analysis unpublished data.

FIGURE 28A *Annual Growth in the Stock Market, 1955-95.* Table B-91, Council of Economic Advisors (1996).

FIGURE 28B *Ratio of CEO Pay to Average Worker's Pay, 1965-95.* Authors' analysis of Pearl Meyer & Partners Inc. data appearing in Lublin (1996).

FIGURE 29 *Interest Rates, 1959-95.* The nominal prime rate charged by banks was deflated using the CPI-U-X1 to obtain the real interest rate. Table B-69, Council of Economic Advisors (1996).

FIGURE 30 *Unemployment, 1973 and 1995.* Data for 1973 from Bureau of Labor Statistics electronic data. Data for 1995 from Table 3, U.S. Department of Labor, Bureau of Labor Statistics (January 1996).

FIGURE 31 *Underemployment by Sex and Race, 1994.* Authors' analysis of U.S. Bureau of Labor Statistics unpublished data from the Current Population Survey, annual averages 1994.

FIGURE 32A *Trade Balance in Manufactured Goods (Exports Minus Imports), 1959-95.* Authors' analysis of Table B-21, Council of Economic Advisors (1996).

FIGURE 32B *Share of Employment in Manufacturing 1979, 1989, and 1995.* Mishel, Bernstein, and Schmitt (1997).

FIGURE 33 *Trade in Manufactured Goods as a Share of National Income, 1959-95.* Table B-21, Council of Economic Advisors (1996).

FIGURE 34A *Value of the Minimum Wage, 1947-2000.* The nominal minimum wage was deflated using the CPI-U-X1 deflator for 1960-95. For the period 1996-2000, it was deflated using forecasts for CPI-U-X1 from Table 1, Congressional Budget Office (1995). The minimum wage is $4.75 beginning October 1, 1996, and $5.15 on September 1, 1997.

FIGURE 34B *Workers Who Would Benefit From an Increase in the Minimum Wage, 1993.* Mishel, Bernstein, and Rasell (1995).

FIGURE 35 *Workers Represented by a Union, 1973-95.* Data for 1973-94 from Hirsch and Macpherson (1995). Data for 1995 from Table 40, U.S. Department of Labor, Bureau of Labor Statistics (January 1996).

FIGURE 37A *Effective Federal Tax Rates, 1977-96.* Page 73, U.S. House of Representatives (1991). Projected data from Congressional Budget Office, unpublished tables, June 26, 1995. Half of corporate income taxes are paid by owners of capital through lower dividends and slower stock appreciation and half are paid by consumers through higher prices.

FIGURE 37B *Tax Revenue as a Share of National Income in Seven Industrialized Countries, 1993.* Table 1, Organization for Economic Cooperation and Development (1995).

FIGURE 38A *Government Receipts as a Share of Income.* Table 15.1, Office of Management and Budget (1996).

FIGURE 38B *Public-Sector Employment, 1973-95.* Authors' analysis of Table 17.5, Office of Management and Budget (1996).

FIGURE 39 *Inflation Rate, 1948-95.* Authors' analysis of Table 58, Council of Economic Advisors (1996).

FIGURE 40 *Wages and Benefits of Production Workers in Manufacturing, in Industrialized Countries, 1994.* Values are exchange-rate converted. Table 61, U.S. Department of Labor (1995).

FIGURE 41 *Educational Attainment of the U.S. Labor Force, 1973 and 1995.* See note to Figure 4.

FIGURE 42 *NAEP Scores for 17-Year-Olds, by Race.* Table 115, U.S. Department of Education (1995), and Table 1, Department of Education (1996).

FIGURE 43 *Cost of Federal Regulation as a Share of National Income, 1977-89.* Table 1, Hopkins (1993).

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